REDUCING POVERTY AMONG CHILDREN

The Congress of the United States
Congressional Budget Office

J932-19

PREFACE

In response to a joint request from the Subcommittee on Public Assistance and Unemployment Compensation and the Subcommittee on Oversight of the Committee on Ways and Means, this study briefly examines existing policies to assist poor families with children and then discusses the issues involved in modifying them and analyzes over 40 policy alternatives. (A companion study, prepared by the Congressional Research Service, provides considerably more detail on historical trends of poverty among children and on current programs.)

The specific options examined here are designed to accomplish a number of objectives: expand the resources of poor families with children through direct federal action; increase their economic independence by enhancing their skills and expanding the number of jobs available to them; alleviate some of the adverse consequences of poverty by providing a variety of services; and reduce the number of families that might be poor in the future. In accordance with the Congressional Budget Office's mandate to provide objective and impartial analysis, this paper contains no recommendations.

The study was prepared principally by Roberton C. Williams and Gina C. Adams of the Congressional Budget Office's Human Resources and Community Development (HRCD) Division under the direction of Nancy M. Gordon and Martin D. Levine. A number of individuals currently or previously on the HRCD staff also contributed sections, including: Thomas J. Buchberger, Daniel Koretz, Martin D. Levine, Stephen H. Long, Carla I. Pedone, Ralph E. Smith, and Bruce Vavrichek.

Several other Congressional Budget Office analysts helped in various ways. Janice Peskin and Marianne S. Deignan were responsible for estimates of the costs and effects of options to modify the Aid to Families with Dependent Children program. Richard A. Kasten estimated the distributional and budgetary impacts of options to develop a children's allowance and to modify the Earned Income Tax Credit. Data analysis was also provided by Theresa Dailey, Roald Euller, Sari Helbig, and Karen Smith. Other analysts who provided data and helpful comments include: Harold A. Black, Sandra Christensen, Paul R. Cullinan, Miriam L. King, Wilhelmina A.

Leigh, Kelly Lukins, David Lindeman, Kelly Lukins, Rosemary D. Marcuss, Maureen McLaughlin, Kathleen O'Connell, Larry Ozanne, Jack Rodgers, Steven H. Sheingold, Charles E. Seagrave, Stacey Sheffrin, and Eric Toder.

Several members of the Bureau of the Census staff provided valuable assistance in developing the poverty statistics under varying definitions of poverty, including Dan Burkhead, John Coder, and Charles T. Nelson. Additional analysis of poverty data was provided by individuals from the Institute for Social Research at the University of Michigan, particularly by Greg J. Duncan, Daniel H. Hill, Martha S. Hill, and James N. Morgan. And useful comments were received from: Kenneth Clarkson; Sheldon Danziger; Gordon W. Green, Jr.; Robert Greenstein; Peter Gottschalk; Robert B. Helms; John M. McNeil; Kristin A. Moore; and Isabel V. Sawhill.

Paul L. Houts, Francis S. Pierce, and Sherry Snyder edited the manuscript. Many drafts were typed and the paper was prepared for publication by Norma A. Leake, with assistance from Mary V. Braxton, Jill Bury, Toni Foxx, and Ronald Moore.

Rudolph G. Penner
Director

May 1985

CONTENTS

SUMMARY · · · xi

CHAPTER I. INTRODUCTION · · · 1

The Incidence of Poverty Among Children · · · 1

CHAPTER II. ISSUES IN ADDRESSING POVERTY AMONG CHILDREN · · · 11

The Objectives of Government Policy and Issues in Designing Aid · · · 11
The Current Federal Role · · · 19
Overview of Options for Helping Children in Poverty · · · 29

CHAPTER III. OPTIONS FOR CASH TRANSFER PROGRAMS · · · 33

Aid to Families with Dependent Children · · · 33
The Earned Income Tax Credit · · · 56
Other Alternatives · · · 65

CHAPTER IV. OPTIONS FOR IN-KIND TRANSFER PROGRAMS · · · 71

Food Stamps · · · 71
School Nutrition Programs · · · 74
Health Care · · · 81
Housing Assistance · · · 85

CHAPTER V. OPTIONS TO DEAL WITH THE EFFECTS OF POVERTY · · · 93

Nutrition and Health Services—The Supplemental Food Program for Women, Infants, and Children · · · 93

Child Welfare Services 96
Targeted Education Programs 102
Services Related to Adolescent Pregnancy and Parenthood 107

CHAPTER VI. OPTIONS TO IMPROVE EMPLOYABILITY 129

Employment and Training 129
Child Care 136

APPENDIX A. MEASURING POVERTY 149

Issues in Assessing Poverty and the Current Measure 150
Alternative Measures of Poverty 159
Statistics on Poverty of Children 167

TABLE 1-1. POVERTY RATES OF CHILDREN UNDER ALTERNATIVE ILLUSTRATIVE INCOME DEFINITIONS AND POVERTY THRESHOLDS, 1982 9

TABLE 1-2. DISTRIBUTION OF CHILDREN AROUND THE OFFICIAL POVERTY THRESHOLD BY INCOME MEASURE, 1982 10

TABLE 2-1. DISTRIBUTION OF POOR CHILDREN BY DURATION OF POVERTY AND FAMILY LABOR FORCE ATTACHMENT 17

TABLE 2-2. CURRENT CASH TRANSFER PROGRAMS THAT ASSIST POOR FAMILIES WITH CHILDREN 21

TABLE 2-3. CURRENT IN-KIND TRANSFER PROGRAMS THAT ASSIST POOR FAMILIES WITH CHILDREN 23

TABLE 2-4. CURRENT PROGRAMS THAT AMELIORATE THE EFFECTS OF POVERTY ON CHILDREN...... 26

TABLE 2-5. CURRENT PROGRAMS TO PROMOTE EMPLOYABILITY FOR POOR FAMILIES WITH CHILDREN.......................... 28

TABLE 3-1. ESTIMATED IMPACTS OF ALTERNATIVE MINIMUM BENEFIT LEVELS, FISCAL YEAR 1986 38

TABLE 3-2. COSTS OF INCREASING DEDUCTIONS FROM INCOME, FISCAL YEAR 1986 49

TABLE 3-3. ESTIMATED EFFECTS OF LIBERALIZING EARNINGS DISREGARDS ON BENEFITS OF AFDC FAMILIES, FISCAL YEAR 1986 51

TABLE 3-4. CHANGES IN MAXIMUM AFDC BENEFITS FOR A FOUR-PERSON FAMILY BY STATE, 1970 TO 1985 52

TABLE 3-5. COMPARISON OF AFDC OPTIONS · · · 55

TABLE 3-6. ESTIMATED TOTAL COSTS AND EFFECTS OF SELECTED COMBINATIONS OF AFDC OPTIONS, FISCAL YEAR 1986 · · · 57

TABLE 3-7. ESTIMATED DISTRIBUTION OF EARNED INCOME TAX CREDITS BY POVERTY STATUS AND NUMBER OF CHILDREN, CALENDAR YEAR 1983 · · · 59

TABLE 3-8. COMPARISON OF EARNED INCOME TAX CREDIT OPTIONS · · · 64

TABLE 3-9. ESTIMATED DISTRIBUTION AND COSTS OF A TAXABLE CHILDREN'S ALLOWANCE OF $22 PER MONTH BY POVERTY STATUS AND NUMBER OF CHILDREN, CALENDAR YEAR 1983 · · · 69

TABLE 4-1. HOUSEHOLDS ELIGIBLE FOR AND RECEIVING RENTAL ASSISTANCE, 1983 · · · 87

TABLE A-1. ALTERNATIVE POVERTY THRESHOLDS, 1982 · · · 169

TABLE A-2. POVERTY RATES OF CHILDREN USING ALTERNATIVE ILLUSTRATIVE DEFINITIONS OF INCOME AND POVERTY THRESHOLDS, BY FAMILY TYPE, 1982 · · · 170

TABLE A-3. POVERTY GAPS FOR ALL FAMILIES WITH CHILDREN, UNDER ALTERNATIVE ILLUSTRATIVE DEFINITIONS OF INCOME AND POVERTY THRESHOLDS, 1982 · · · 172

FIGURE 1. POVERTY RATE AMONG CHILDREN, AGES 0-17 4
FIGURE 2. ADOLESCENT PREGNANCY RATE AND OUTCOMES, 1970-1982 108
FIGURE 3. ADOLESCENT BIRTHRATES, 1970-1982 108

SUMMARY

In 1983, nearly 14 million American children, or more than one child in five, lived in poverty as measured by the official Bureau of the Census definition. These children constituted nearly 40 percent of all poor people, and they and the adults with whom they lived represented more than two-thirds of the poverty population. Although these figures were recorded near the end of a deep recession and some improvement is likely because of the subsequent economic recovery, the poverty rate among children is not apt to drop very sharply, and large numbers of children will almost certainly be poor for some years to come.

THE PATTERN OF POVERTY AMONG CHILDREN

Any measure of poverty is necessarily arbitrary, and the number of people--including children--who are deemed to be poor depends on what yardstick is used. Nonetheless, such measures are useful, both as guides to how economic hardship is distributed within the population and as means of judging progress toward alleviating it. The official poverty measure, which was established two decades ago, judged each member of a family to be poor if the family had pretax cash income less than three times the cost of a nutritionally adequate but minimum diet. The measure remains essentially the same today, with adjustments made for changes in the cost of living. In 1983--the most recent year for which comprehensive data are available on family incomes--the poverty threshold for a family of three was roughly $8,000. For other families, the thresholds varied from about $5,000 for a single person to just over $20,000 for families of nine or more.

By the Census measure, 22 percent of all children were poor in 1983, but the rate varied greatly according to household composition, ethnicity and race, and where the children lived. 1/ Of all children living in single-

---

1. Alternative measures of poverty can be constructed by specifying different poverty thresholds, and by changing the definition of income available to families. The latter could be broadened to include in-kind benefits (such as food stamps and housing subsidies), and to exclude taxes that reduce the resources available to pay for goods and services. Under 11 combinations of such changes considered in this paper, the overall childhood poverty rate varied from about two percentage points less than the official rate to about six percentage points more.

parent households headed by women, 55 percent were poor--more than four times the rate for children in other households. In the same year, 47 percent of all black children and 38 percent of all Hispanic children were poor compared with 15 percent of all nonminority children. Among minority children in households headed by a single woman, about 7 out of every 10 were poor. Geographically, poverty was most common among children who lived either in central portions of metropolitan areas or in nonmetropolitan areas.

THE CURRENT FEDERAL ROLE

By its very nature, government affects the well-being of all citizens and influences how many of them are poor. Monetary and fiscal policies affect economic growth and stability; they determine how readily workers can find jobs and how much they can buy with the money they earn. The taxes collected by government help determine how much income is available to meet consumption needs. Moreover, an array of laws and regulations influences the operation of labor markets and other aspects of the economy.

In addition, governments at all levels provide a wide range of assistance intended to help people who remain in or near poverty. A number of cash and in-kind assistance programs--plus a tax credit for some families with low earnings--help low-income families with children meet their basic needs. Coverage is uneven, however, and average benefits vary geographically, sometimes greatly. Food Stamps--a federally financed program that helps families afford a minimally adequate diet--is the only assistance that is available to essentially all families in or near poverty. Aid to Families with Dependent Children (AFDC), which provides cash assistance, and Medicaid, which finances health care services, are shared federal/state responsibilities. Aid under these programs is available to most children living in single-parent families with incomes less than state-established income-eligibility limits, which are generally well below the poverty thresholds. States also determine whether assistance is provided to children living in two-parent families. This core of assistance is supplemented by subsidized housing programs, which reduce shelter costs for some low-income families with children; by the Earned Income Tax Credit (EITC), which reduces the tax liability, or provides cash payments, for low-income families with children and low earnings; and by school-based meal programs that subsidize breakfasts and lunches for low-income children.

Complementing this direct assistance system are subsidies for employment and training intended to help the parents of poor children work their way out of poverty, as well as funding for a broad range of social services and education programs intended to alleviate some of the adverse consequences of poverty and reduce the incidence of poverty in the future. Most of this aid is available through annually appropriated programs that serve only a small share of those who are eligible.

OPTIONS FOR HELPING LOW-INCOME CHILDREN

Because economic growth provides increased employment opportunities and higher incomes, the performance of the economy has a major impact on the extent of poverty. While there is a clear government role in promoting economic growth, the scope of this paper is limited to more direct measures for helping poor children. The fundamental role of a strong economy must be kept in mind, however, since high employment is a necessary condition for the success of several of the options considered in this paper.

Options for altering current federal efforts that help to reduce poverty among children, or its effects on them, are as varied as views regarding the dynamics of poverty and the appropriate role for government. Some alternatives would comprehensively restructure the current welfare system. These range from proposals to have the federal government assume full responsibility for providing a minimum income floor for all families with children, to proposals that would greatly scale back the current public assistance system in order to increase incentives for low-income people to take responsibility for improving their own well-being. Also, several of the current proposals for restructuring the federal income tax system include provisions that would reduce or eliminate the income taxes paid by poor families.

While debate about comprehensive reforms continues, discussions in the Congress each year tend to be dominated by specific proposals to modify existing policies. These more incremental options also vary greatly, however, reflecting different policy objectives, and some would involve fairly substantial modifications to current policies. This paper examines more than 40 such options.

In considering any option, two fundamental issues must be addressed. First, how effective would a particular approach be? Wherever possible, this paper provides evidence about the impacts of existing federal efforts and about the likely effects of specific changes in them or new approaches.

Even if there is general agreement that a particular approach is effective, however, a second issue arises. Large projected federal budget deficits mean that difficult trade-offs must be made. Most proposals to modify current policies would require additional outlays or would reduce revenues. Consequently, other demands on the government and limited tax revenues conflict with the desire to aid poor children. As the Congress works to reduce deficits, choices among these competing factors are particularly difficult.

Increase Resources Through Direct Assistance

One set of options would increase resources provided by the government--either by increasing benefits to families that are already eligible for assistance, or by expanding eligibility to reduce disparities that now exist in the treatment of similar types of families. Both approaches would improve the living standards of some low-income families with children, but they could also weaken incentives for low-income families to make their own efforts to escape poverty.

Increase Benefit Levels. One option for increasing the incomes of low-income families with children would be to require that all states set minimum AFDC benefits at a level sufficient to assure that any assisted family would have cash income plus food stamps equal to at least 65 percent of the federal poverty guidelines. [2] If such a minimum were enacted to take effect in 1986, a family of three with no other income would receive an AFDC benefit of $396 per month, plus $132 in food stamps.

This option would raise AFDC benefits for some or all current recipients in 41 states. About 2.2 million families currently participating (that is, three-fifths of the total) would receive net increases averaging about $75 per month in the combined value of their AFDC and food stamp benefits, and an estimated 190,000 additional families would join the AFDC program. Such a change would increase net costs for the federal government and the states of $2.7 billion in 1986, including higher AFDC expenditures plus associated increases in Medicaid costs, net of reduced food stamp expenditures. Raising benefits could increase work disincentives, however, especially for people with low potential earnings and those in areas where wages are generally low.

---

2. That level would be somewhat lower, for example, than the benefit level available through the Supplemental Security Income program, which serves low-income elderly, blind, and disabled people.

Another option would be to increase the maximum food stamp allotment for families with children. Raising their maximum allotment to 110 percent of the level provided under current law would increase average monthly benefits for 4.2 million households from $173 to $198, at an annual cost to the federal government of about $1.2 billion. This increase would enable affected families to purchase additional food. Some critics contend, however, that current allotments are sufficient to fulfill nutritional needs. Others argue that recipients would be better off receiving cash, which could be used to purchase what they felt best met their needs.

Reduce Disparities in Coverage. Other options would reduce disparities in coverage under current programs by extending eligibility to families that are not currently served in some states. One alternative would be to mandate coverage in the AFDC program for poor two-parent families regardless of their employment status. Mandatory coverage for all low-income, two-parent families--a group that is entirely excluded in about half the states and partially excluded in the others--would add an estimated 450,000 families to the AFDC rolls at a total federal and state net cost in 1986 of about $1.5 billion. Such a change could reduce incentives for some low-income recipients to work, but it would also eliminate one incentive for families to break up.

Another alternative would be to require that states provide Medicaid coverage for all low-income children and pregnant women, regardless of the type of family in which they live. Mandatory Medicaid coverage for all children and pregnant women in families with incomes below 65 percent of the federal poverty guidelines, for example, would serve about 700,000 children and 100,000 pregnant women. Although this option would reduce disparities in the access of low-income children and pregnant women to health care without expanding eligibility for cash assistance, it would also raise annual costs by roughly $0.7 billion, divided about evenly between the federal government and the states.

Promote Economic Independence

Another strategy for aiding poor children would be to help their parents or guardians achieve economic independence. This approach could involve raising work incentives or work requirements in current transfer programs; increasing employers' willingness to hire parents of poor children, either by raising parents' skills or by lowering the cost of employing them; or expanding access to child care.

Increase Work Incentives or Work Requirements in Current Transfer Programs. Numerous changes could be made in the rules governing public assistance programs to encourage parents to work more. The federal government could, for example, raise permissible deductions from income under the AFDC and Food Stamp programs; this change would lower the amount by which benefits are reduced for people who work. Specific changes could include allowing larger deductions to cover work-related expenses, raising limits on deductible child care costs, or disregarding a larger fraction of earnings in calculating benefits. A combination of these and other adjustments in the AFDC program, for example, would increase monthly benefits by an average of $69 for more than 150,000 families currently receiving AFDC, and would give payments averaging $116 per month to 190,000 new participants. The annual net cost would be about $0.5 billion. While this option would reward families that try to help themselves, its effect on work effort is unclear.

Another option would be to require that all adults in families receiving AFDC benefits perform some work as a condition of receiving benefits, unless they are exempted for reasons such as disability or the responsibility of caring for a young child. Currently, many states have some type of "workfare" program for AFDC recipients, but in most states it is not universal. Mandatory workfare would increase incentives for welfare recipients to seek jobs. It might also provide welfare recipients with opportunities to increase their skills and credentials so that they could become self-sufficient. Many claims about the value of workfare are in dispute, however. Reliable information on its effects should be available shortly when evaluations of current demonstration programs are completed.

Increase the Ability of Low-Income Parents to Compete for Jobs. The employment prospects of low-income parents could also be improved by increasing their skills or by increasing the demand for the skills they have. One option for raising skill levels would be to increase training funds under the Job Training Partnership Act (JTPA). For example, an additional $100 million in JTPA funds earmarked for AFDC recipients could provide training to about 50,000 more people--an increase of more than 40 percent in the number of AFDC recipients who now receive JTPA training. Based on evaluations of an earlier program, there is reason to anticipate that JTPA training could increase the future earnings of welfare recipients, especially for those with little previous work experience. Opponents argue, however, that some of the gains in earnings reflected differences in motivation between participants and nonparticipants, and that funding increases are not warranted.

Another approach would be to subsidize the wages of particular groups of workers. One option would be to reauthorize the Targeted Jobs Tax Credit (TJTC), which provides private employers who hire members of certain economically disadvantaged groups--including AFDC recipients--with tax credits of up to $3,000 for the first year of employment and $1,500 for the second year. Extending the credit, which is due to expire at the end of this year, and limiting eligibility to AFDC recipients would encourage private employers to hire members of this group. On the other hand, employers might receive the subsidy for hiring workers they would have hired anyway.

Alternatively, more jobs for low-wage workers might be available if certain regulations and laws affecting the operation of labor markets were relaxed or eliminated. For example, the Congress could reduce the federal minimum wage, which is currently set at $3.35 per hour. While this action would probably help additional members of poor families with children to find jobs, it would probably decrease earnings for some people who already hold minimum-wage jobs. The net impact this option would have on poor families with children is not known.

Increase Access to Child Care. For some low-income parents, limited access to affordable child care may be the greatest constraint on their ability to look for jobs. One approach for increasing access is to provide incentive grants to states or nonprofit organizations to expand low-cost child care. Alternatively, child care for low-income families could be subsidized directly, for example through a set-aside in the Social Services Block Grant (SSBG). In addition, the dependent care tax credit could be modified to make it more valuable to low-income families. Considerable disagreement exists, however, over the adequacy of the supply of child care, the degree to which a lack of child care limits labor force participation, and the role the federal government should play in this area.

Alleviate Adverse Effects and Help Prevent Future Poverty

A final set of options focuses on ways to alleviate some of the adverse effects of poverty on children, or to help prevent poverty in the future.

One alternative would be to increase funding for the Supplemental Food Program for Women, Infants, and Children (WIC), which provides food assistance and nutritional screening to low-income pregnant and postpartum women and their infants, as well as to low-income children up to age five.

Evaluations of the WIC program have found it to be effective in reducing the incidence of low birthweight among infants--a condition that is linked to increased probability of infant mortality and a wide variety of birth defects. Program coverage is incomplete, however. Current appropriations are estimated to be sufficient to serve only about one-third of all income-eligible women, one-half of all income-eligible infants, and one-fifth of all income-eligible children. (While data on the number who also meet the "nutritional-risk" eligibility criterion are not available, many people argue that a high proportion of this group either have nutritional deficiencies or have inadequate diets that could lead to such deficiencies.) Increasing funding for WIC by $500 million from the 1985 level of $1.5 billion would provide coverage for about 1 million additional people, expanding coverage to about 40 percent of those who are eligible based on their incomes. Making WIC an entitlement would increase costs by up to $3.8 billion, depending on how many people participated. Opponents contend, however, that those people most in need are already served.

Additional assistance could also be provided by expanding funding for the Head Start program, which pays for a wide range of services for low-income children and their families through a preschool day care program. In addition to safe and developmentally oriented day care, the program provides children with medical and dental services, as well as balanced meals. While the long-term educational effects of the national Head Start program remain unclear, some preschool intervention programs have been found to lessen substantially the odds of failure in school, and even to improve employment experiences after high school. Opponents question, however, whether expanding this program is the best use of scarce federal resources, given the average annual cost of $2,400 per child served.

Because teenage pregnancy contributes substantially to child poverty and long-term dependence on public assistance, another approach would be to attempt to reduce the teenage pregnancy rate and to help those teenagers who become pregnant. One option would be to increase funding for family life education programs or for family planning information and services. This approach could increase teenagers' knowledge of the consequences of sexual activity, as well as their access to contraception. There is great controversy, however, about whether it is appropriate for the federal government to fund such assistance or whether parents should be solely responsible. Pregnant teenagers could also be given information about adoption. In addition, comprehensive services could be provided to those teenage mothers who choose to raise their children themselves, by assisting them to remain in school and thereby improving their chances of achieving economic independence.

CHAPTER I

INTRODUCTION

In 1983, nearly 14 million children, or more than one out of every five, lived below the official poverty line. 1/ This was the highest poverty rate among children since the early 1960s. As of 1983, children represented almost 40 percent of the poor, and they and the adults living with them--24 million people in all--made up more than two-thirds of the poverty population.

This paper examines patterns of childhood poverty and presents options intended either to reduce poverty among children or to alleviate its adverse effects. The remainder of this chapter discusses how poverty is measured, recent trends and current patterns of childhood poverty as officially measured, and the effects of using alternative definitions of poverty. Subsequent chapters examine issues that arise in dealing with childhood poverty, federal policies that currently address the poverty of children and their families, and options for altering current federal efforts. 2/

THE INCIDENCE OF POVERTY AMONG CHILDREN

Which children, and how many, are poor depends on how poverty is measured. By the official Bureau of the Census yardstick, 22 percent of all

---

1. Children are defined as all individuals under the age of 18. Congressional Budget Office tabulations of Census (Current Population Survey) data include in their counts of children a small number of individuals under the age of 18 who are not classified as children in certain Census tabulations. Accordingly, some published Census numbers may differ slightly from corresponding numbers appearing here. Moreover, in this paper, the word "families" and "households" generally mean families and households with children.

2. Considerably more detail on historical trends in poverty of children and on government programs is presented in a companion paper prepared by the Congressional Research Service and published in U.S. House of Representatives, Committee on Ways and Means, *Children in Poverty* (WMCP:99-8), May 1985. That paper also discusses factors associated with childhood poverty.

children were poor in 1983, the highest poverty rate in two decades. Critics argue that official statistics misstate poverty, however, contending that poverty thresholds are set at the wrong levels, and that families' incomes are not measured correctly. Nonetheless, across a wide range of alternative measures, poverty rates for children differ by only small amounts. Under none of the measures examined here does the magnitude of the problem shrink markedly.

Issues in Measuring Poverty

Measuring poverty entails establishing thresholds that specify the amount of resources assumed to be required to achieve a minimally adequate living standard, and comparing the resources available to each family with the appropriate threshold for that type of family. This raises two measurement issues:

- At what level should the thresholds be set?
- What resources should be counted in assessing whether a family falls below the appropriate threshold, and how should those resources be valued?

Any poverty threshold is necessarily arbitrary, reflecting the views of those who establish it about what constitutes a minimally adequate standard of living. One broad choice is whether to set absolute standards of minimum adequacy or to fix thresholds relative to the economic position of the average citizen. With relative thresholds, the poverty line would float up or down with the standard of living in the broader population, while an absolute standard would fix the poverty line in real terms. Even absolute standards are defined in relation to the norms of the country involved, however. What is considered a minimally adequate standard of living in the United States, for example, would be viewed as very generous in many developing countries.

Deciding what resources should be considered in judging a family's well-being--and how those resources should be valued--involves choices about whether cash income should be measured before or after taxes are taken out, whether in-kind benefits such as health insurance or housing subsidies should be included, and whether assets should be taken into account. Most people contend that all resources that are available to meet immediate consumption needs, whether the resources are in cash or in kind, should be counted in judging whether a family is poor. Much less agreement exists, however, about what should be done with taxes, how in-kind benefits should be valued, and whether assets that do not provide current income--such as equity in homes--should be included in measuring a family's economic status.

The Official Measure and Trends in Childhood Poverty

The official poverty measure used in the United States was established two decades ago. It judges a family--and each member of the family--to be poor if the family has a cash income (counted before taxes are subtracted) that is less than thresholds originally set at three times the cost of a nutritionally adequate but minimum diet and indexed to reflect price increases since then. 3/ Although the specific poverty thresholds--which vary with family size and composition--are adjusted annually to take account of increases in the cost of living, neither the manner for setting thresholds nor the kinds of resources that are compared with those thresholds has been changed since the measure was first established. 4/ In 1983, the official poverty threshold for a family of four was roughly $10,000. For other families, the thresholds varied from about $5,000 for a single person to just over $20,000 for families of nine or more people.

During the past 25 years, the official poverty rate among children first dropped sharply and then returned nearly to its previous levels (see Figure 1). 5/ Several factors appear to be responsible for this pattern, including economic conditions, changes in household composition, and changes in federal policies. Although the poverty rate among children is likely to drop somewhat when data become available for 1984 and 1985, there is little indication that it will fall to the level of the late 1970s.

Between 1959 and 1969 the childhood poverty rate fell consistently, from approximately 26 percent to 14 percent. Furthermore, the number of poor children dropped by about 6.5 million, despite a 9 percent growth in the

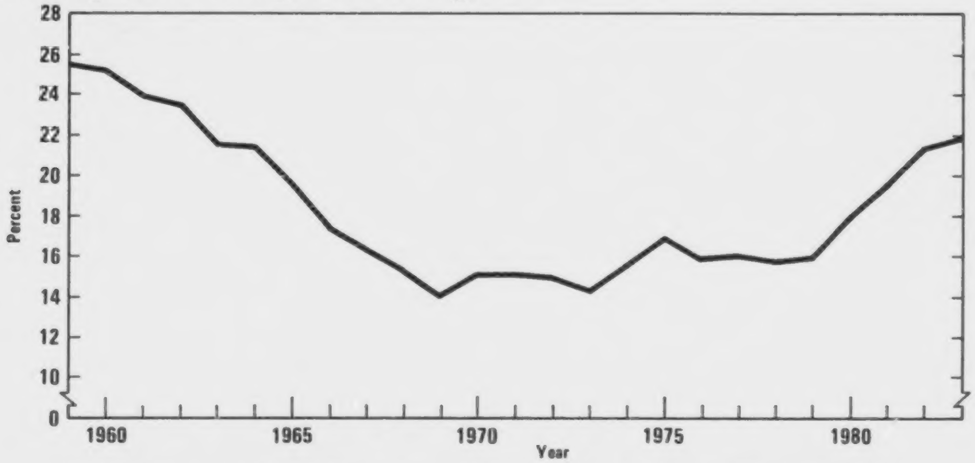
---

3. The factor of three was based on a 1955 survey of consumer expenditures that indicated that families of three or more spent an average of about one-third of their after-tax incomes on food.

4. These two issues--setting thresholds and measuring resources--are the major areas of criticism of the official poverty definition. Further discussion of them and alternative measures are offered below.

5. Much of this discussion of trends in poverty among children is drawn from Congressional Budget Office, "Poverty Among Children," (December 3, 1984). See this paper for a more in-depth analysis of the trends in childhood poverty.

Figure 1.
Poverty Rate Among Children, Ages 0-17



SOURCE: Congressional Budget Office; Bureau of the Census, *Current Population Reports*, Series P-60.

NOTE: Rates are slightly underestimated because of the exclusion of older unrelated children and, since 1979, because of the exclusion of unrelated subfamilies. Rates before 1966 have been adjusted downward for consistency with later years. See Congressional Budget Office, *Poverty Among Children* (unpublished, December 3, 1984), for further details.

child population. Factors that may have contributed to this drop in poverty include: a generally strong economy, with declining unemployment and relatively low inflation; increased real (that is, inflation-adjusted) government spending on poor children, particularly in the Aid to Families with Dependent Children (AFDC) program; and a relatively slow rate of increase in the proportion of children living in households headed by single women--a population that is especially likely to be poor.

The decline in the childhood poverty rate stopped in 1969. Over the course of the following decade the poverty rate among children rose slightly, though erratically, to roughly 16 percent in 1979. Even though the poverty rate fluctuated with economic cycles, its overall increase in this period appears to be primarily related to the increased proportion of children living in households headed by single women.

Between 1979 and 1983--the most recent year for which data are available--the child poverty rate rose sharply, from 16 percent to 22 percent, and the number of poor children rose by 3.7 million to a peak of 13.8 million, the highest number since the 1960s. This increase in poverty affected children in all household types, of all ages, and of all racial and ethnic groups. The growth in poverty rates appears to have been the result of the rapid inflation of 1979-1980, the severe back-to-back recessions of 1980 and 1981-1982, and the reductions in government spending on income maintenance programs. The relatively small shifts in household composition that occurred during this brief period did not contribute significantly to the increase in the number of poor children. 6/

Although it is difficult to forecast poverty rates, it appears that the official child poverty rate is likely to decline as data covering the current economic expansion become available. While the extent of any further decline is unknown, several factors suggest that it is unlikely that the poverty rate will return to its prerecession (1979) level. First, if the unemployment rate follows the pattern assumed in the most recent Congressional Budget Office (CBO) economic assumptions, it will remain above its 1979 level and thus impede a drop in childhood poverty. Second, the growing proportion of children who live in households headed by single women is continuing to contribute to a slight upward drift in the poverty rate that is largely independent of cyclical changes in the economy. Finally, future federal budgetary constraints make large increases in income security benefits (which would reduce poverty) unlikely over the next several years. On the other hand, if the recovery is sufficiently strong and sustained, it could offset these factors. Nonetheless, poverty is almost certain to continue to be common among children and the adults who take care of them.

Characteristics of Poor Children

Although poverty is found among all groups of children, the poverty rate varies somewhat with the age of the child, and varies greatly with household composition, ethnicity and race, and whether the children are living in inner cities, suburbs, or rural areas. 7/ In 1983, one out of four preschool

---

6. Over the 1967-1983 period, the portion of the poverty population comprising poor children plus adults in households with poor children grew from 65 percent to 70 percent. The increase in the poverty rate of these groups did not result in a correspondingly large increase in their share of the poverty population, because of the offsetting decline in their share of the total population.

7. Data in this section are from Department of Commerce, Bureau of the Census, *Characteristics of the Population Below the Poverty Level: 1983*, Current Population Reports, Consumer Income Series P-60, No. 147 (February 1985), pp. 31-38, and 40-42.

children was poor--slightly more than the one-fifth of all school-age children who are living in poverty.

Poverty is much more common among children in households headed by single women than among two-parent households.[8] In 1983, 55 percent of the children living in households headed by single women were poor--more than four times the rate for children in two-parent households. Children from households headed by single women constitute almost 20 percent of the entire population of children, but they make up almost half of all poor children.

Minority children are much more likely to be poor than are nonminority children, although substantial numbers of the latter group are also poor. In 1983, 47 percent of all black children and 38 percent of all Hispanic children were poor, compared with 15 percent of all nonminority children.[9] Minority children represent one-fourth of the entire child population, but they make up almost half of all poor children. Poverty rates are highest among minority children in households headed by single women. In 1983, about 7 out of every 10 minority children in households headed by single women were poor.

Finally, poverty is more common among children who live either in central portions of metropolitan areas or in nonmetropolitan areas. In 1983, 31 percent of all children living in central cities of metropolitan areas and 24 percent of children living in nonmetropolitan areas were poor, compared with 13 percent of children living in noncentral (primarily suburban) portions of metropolitan areas. More than three-fourths of all poor children live either in central cities or in nonmetropolitan areas (39 percent and 37 percent respectively); the remaining poor children live in noncentral portions of metropolitan areas.

---

[8] In this discussion, families with two parents and families where the father is the single parent are combined into the "two-parent" category, because data about households headed by single men are available for only a small sample. Although the poverty rate of these households is higher than that of two-parent households, it is lower than that of households headed by single women.

[9] Census publications define as "Spanish Origin" all people who classify themselves as such, regardless of race. Thus, the Census racial and ethnic categories overlap; Spanish Origin individuals are tabulated both as such and as either white or black. In this discussion, all people in the Spanish Origin category are classified as Hispanic and are not counted as either black or "nonminority." The "nonminority" category is constructed by subtracting all Hispanics from the count of whites and thus is nearly equivalent to "non-Hispanic white," since almost all Hispanics are classified as white.

Alternative Measures of Poverty

An unlimited number of alternative measures could be used to judge the incidence and distribution of poverty. Proposed alternatives--all of which imply some criticism of the current poverty measure--reflect differing judgments regarding what constitutes the minimum acceptable standard of living, and how resources should be counted in determining whether a family can attain that standard. The remainder of this section briefly describes criticisms of the current poverty measure and examines the variation in the poverty rate of children among several alternatives. As noted earlier, the number of poor children is large, regardless of what measure is used. (Appendix A elaborates on the discussion presented here.)

Alternative Poverty Thresholds. The current poverty thresholds have been criticized on several grounds. Some people contend that the way the thresholds have been adjusted for inflation has overstated the actual increase in the cost of living and, thus, has resulted in higher poverty lines than would otherwise have been set. Others take issue with basing the standard of minimum adequacy on a relationship between income and food expenditures that in turn is based on a survey that is now 30 years old. They argue that whatever the justification may have been for such a measure when it was first agreed to, little ground exists for maintaining that same multiple today. Still others argue that the appropriate measure of poverty is a relative one that would designate as poor all families with incomes less than some fraction of the national median.

Continued use of the present thresholds--with appropriate inflation adjustments--would maintain consistency in the way in which poverty is measured, so that data would be comparable over time. On the other hand, if the poverty thresholds are meant to represent societal standards of need, it might be appropriate to redefine them periodically. Adopting the alternative approach of establishing the poverty thresholds at some fraction of median family incomes would provide information on the shape of the income distribution and how that distribution is changing over time.

Alternative Income Measures. Criticisms of how income is measured in assessing poverty focus on the exclusion from income of non-cash benefits and the fact that the taxes paid by low-income families are not subtracted from income in judging whether a family has adequate resources to meet minimum needs. While in-kind income and taxes were relatively unimportant for low-income families when the poverty measure was first established, this is no longer true; about two-thirds of all means-tested benefits are now provided in kind, and roughly one-third of poor families pay income and payroll taxes averaging 6 percent of their income. Others criticize the current measure for failing to take account of assets that may not be producing income now, but which could be "spent down" to meet current consumption needs.

Changing the way income is measured might or might not call for modifying the thresholds. For example, measuring income after taxes would be consistent with the current methodology for setting the thresholds (which is based on after-tax concepts); thus, many people argue that no change in the thresholds would be needed. In contrast, recalculating the thresholds to take account of in-kind income received by the general population would be required to maintain consistency with an income measure that included in-kind benefits. 10/ Some argue, however, that only the measure of income should be changed, because the thresholds represent a necessarily arbitrary standard against which to judge families' well-being.

Poverty Under Alternative Measures. How many people are poor, and which people are poor, would vary both with the threshold used and the way in which income is measured. Lowering the current poverty thresholds would reduce the number of people deemed to be poor, while raising the thresholds would increase the count. Including non-cash benefits in income would lower the estimate of the size of the poverty population; subtracting taxes paid would have the opposite effect.

Under 11 alternatives to the current poverty measure--altering both the poverty thresholds and the way in which income is measured--the proportion of all children who would have been judged to be poor in 1982 (the latest year for which complete data are available) would range from 19.4 percent to 27.7 percent, compared with 21.9 percent under the current measure (see Table I-1). 11/ The effect of changing the income measure would depend on the choice of thresholds; with the official thresholds, for example, including in-kind benefits and excluding personal income and payroll taxes would cause measured poverty to decline--to 20.7 percent or 19.8 percent, depending on how in-kind income is valued--while higher thresholds would yield larger, rather than smaller, poverty rates under the expanded income definition.

---

10. Examples of such in-kind income include contributions by employers for health and life insurance and for private pensions.

11. The offical thresholds and three alternatives are used. The "reindexed" threshold uses an alternative price index based on the consumption patterns of poor families to update the original thresholds for inflation since 1965. The "new multiplier" threshold recalculates the income-to-food-expenditures ratio, based on more recent data and including in-kind income and consumption. Finally, the "relative" threshold is set at 50 percent of median family income. Of the three alternatives, the first is about 1 percent lower, the second 13 percent higher, and the last 19 percent higher than the official threshold in 1982. (continued)

TABLE I-1. POVERTY RATES OF CHILDREN UNDER ALTERNATIVE ILLUSTRATIVE INCOME DEFINITIONS AND POVERTY THRESHOLDS, 1982

	Income Measure [b]		
Poverty Threshold [a]	Cash Only	Cash Plus In-Kind Benefits at Cash-Equivalent Value, Minus Taxes	Cash Plus In-Kind Benefits at Budget-Share Value, Minus Taxes
Official	21.9[c]	20.7	19.8
Reindexed	21.6	20.3	19.4
New Multiplier	24.9	25.6	25.2
Relative	26.4	27.7	27.3

SOURCE: Congressional Budget Office tabulations of March 1983 Current Population Survey including Bureau of the Census imputations of the value of the in-kind income and of taxes.

a. "Reindexed" thresholds are about 1 percent below official thresholds, "New Multiplier" thresholds are about 13 percent higher, and "Relative" thresholds are about 19 percent higher. See footnote 11 above and Appendix A for further discussion.

b. See footnote 11 above and Appendix A for discussion of alternative income measures and ways of valuing in-kind income.

c. This value represents the current Bureau of the Census poverty measure.

Two other income measures are used--in addition to cash only--to take account of the value of in-kind benefits people receive and the federal income and payroll taxes they pay. The cash-equivalent/recipient-value measure tries to determine how much recipients value in-kind income, while the budget-share value is equal to the smaller of the market value of the in-kind income and the normal expenditure on the particular good by families at the poverty level. Both alternatives subtract federal income and payroll taxes paid. See Appendix A for further discussion of the alternative thresholds and methods for valuing in-kind income.

Using the various thresholds considered here, alternative definitions of income would also present different pictures of the distribution of people around the poverty lines. For example, using the current thresholds and either of two procedures for valuing in-kind benefits, the proportion of all children living in families with incomes more than 25 percent below the poverty lines would decline from about 16 percent to between 10 percent and 11 percent (see Table I-2). This result would occur because many of the lowest-income families receive one or more in-kind benefits from the federal government, so their expanded income is noticeably higher than their cash income. On the other hand, under the same measures, the proportion of children in families with incomes between 100 percent and 125 percent of the poverty lines would rise from 6 percent to between 9 percent and 10 percent--reflecting the effect of taxes paid by the near-poor.

TABLE I-2. DISTRIBUTION OF CHILDREN AROUND THE OFFICIAL POVERTY THRESHOLD BY INCOME MEASURE, 1982
(In percent of all children)

	Income Measure [a]		
Family Income as Percentage of Poverty Threshold	Cash Only	Cash Plus In-Kind Benefits at Cash-Equivalent Value, Minus Taxes	Cash Plus In-Kind Benefits at Budget-Share Value, Minus Taxes
Less than 75 Percent	16.1	10.9	10.1
Between 75 Percent and 100 Percent	5.8	9.8	9.8
Between 100 Percent and 125 Percent	6.0	9.3	9.8
Total (Less Than 125 Percent)	27.9	29.9	29.6

SOURCE: Congressional Budget Office.

a. See footnote 11 above and Appendix A for discussion of alternative income measures and ways of valuing in-kind income.

CHAPTER II

ISSUES IN ADDRESSING POVERTY AMONG CHILDREN

Government by its very nature affects the well-being of all citizens and influences how many of them are poor. Through monetary and fiscal policies and regulations, government affects the condition of the economy, and thus, among other things, how readily workers can find jobs and the stability of the value of the money they earn. Also, the taxes collected by government determine how much income is available to people to meet consumption needs. In addition, governments at all levels administer a wide variety of programs intended to aid people--both individuals and families with children--who remain in or near poverty even during periods of economic expansion and low inflation.

This chapter briefly describes the issues that arise in determining the scope of direct government efforts to aid low-income families with children, and in designing specific policies. It then examines the current federal role. The chapter concludes with an overview of options for altering current policies. The options themselves are discussed in Chapters III through VI.

THE OBJECTIVES OF GOVERNMENT POLICY AND ISSUES IN DESIGNING AID

Government policies that deal specifically with childhood poverty are intended to address several broad objectives: to ensure that some minimum level of resources is available to meet the basic needs of children for food, shelter, health care, and other necessities; to protect children from some of the adverse effects that poverty may have, including impairments to their physical and mental development; and to help poor families achieve economic independence. Underlying these policies are concerns to avoid creating incentives for families to break up; to maintain work incentives for those who are able to work; and to provide aid as efficiently as possible. Most people would also argue that government efforts should endeavor to treat similar people similarly, consistent with other policy goals.

While considerable consensus exists concerning policy objectives, there is much less agreement regarding the scope or design of specific policies.

Four broad issues arise in designing antipoverty efforts:

- What should be the scope of government's responsibility?
- Who should be helped?
- What form should assistance take?
- How should direct aid be delivered?

What Should Be Government's Responsibility?

Society's judgment concerning the appropriate division of responsibilities between the public and private sectors has shifted over time. In the United States until this century, private charity provided a large fraction of aid for poor people; the assistance that came from the public sector was financed almost exclusively by states and localities. During the Depression, however, the scope of poverty increased greatly, and the capacity of the private sector and of subnational governments to address basic needs of the poor diminished; as a result, the role of the federal government was broadened. In addition to the enactment of new programs, the federal government's role as a regulator of economic activity was considerably expanded. For example, the Fair Labor Standards Act of 1938 established a federal minimum wage for many jobs.

With the shift in the economy brought about by World War II, some of the direct federal aid--particularly that which was funneled through states and localities to finance public-sector employment--was phased out. Federal aid expanded again during the 1960s and 1970s, and its scope was broadened significantly. Over the past few years, growth in most assistance programs has been slowed and, in some cases, reversed, but the basic policies remain largely the same.

The effect of federal tax policy on the poor has also varied over time. Prior to World War II, approximately 90 percent of the population was below tax entry levels in the federal income tax. Even in the late 1940s and the early 1950s, tax entry levels were much higher, relative to median family income, than they are now. By 1964, the erosion of the value of the personal exemption led the Congress to enact a minimum standard deduction designed to exempt the very low-income population from the income tax. Enactment of the Earned Income Tax Credit (EITC) in 1975 to benefit families with children, and creation of the zero bracket amount in 1977, further raised tax entry levels for families with children. In fact, 1975-1979 was the only period during the last 25 years in which tax entry levels significantly exceeded the poverty thresholds. Since that time, a growing proportion of poor families have paid income taxes. Moreover, the Social Security payroll tax rate has risen from 3 percent in 1960 to just over 7 percent in 1985. In 1984, about one-third of all poor families paid some federal tax.

Debate continues as to the appropriate role of government. Some argue that only government can mobilize the resources necessary to help the poor, and that more assistance is needed in light of the recent rise in the number of poor children. Others contend that while some direct government involvement is necessary to ensure that people who cannot support themselves can achieve some minimum level of subsistence, in practice the government has gone well beyond what was needed and has created a welfare class that is dependent on public aid. They argue that only by sharply curtailing government's role can incentives be created for the poor to take the initiative to move themselves out of poverty. Some critics also contend that certain government efforts to raise the incomes of disadvantaged groups--such as establishing minimum wage rates--have actually made them worse off, and that relaxing or eliminating these laws and regulations will expand their job opportunities.

Disagreement also exists as to the level of government--federal, state, or local--that should provide whatever aid is made available. Some people argue that state and local agencies can better identify the families who are in need of help and the form that assistance should take. Others--citing differences in the willingness and fiscal capacity of different states and localities to aid low-income people--contend that the responsibility for helping meet the minimum needs of those who are least well-off should rest with the federal government. They note that only the federal government is in a position to assure that similar families in different locations are treated similarly. 1/

In the area of tax policy, there is less apparent controversy. Though disagreement about particular means may exist--for example, raising the zero bracket amount or increasing the personal exemption--it is widely held that people with incomes below the poverty lines should not have to pay any income tax.

---

1. Further, if assistance is locally determined and funded, differences in aid--and in taxes to finance it--might draw some poor people to areas providing higher benefits, and some taxpayers to areas with lower taxes. Only the federal government can ensure that incentives for migration resulting from benefit and tax differentials are avoided.

Who Should Be Helped?

One of the central issues in designing specific policies intended to reduce childhood poverty or alleviate its effects is who should be helped.

Defining the Minimum. From one perspective, deciding who should receive cash or in-kind assistance to help meet basic consumption needs involves defining the minimum amount of resources that the government should assure is available to support a child. Put another way, at what level of resources should government's responsibility cease? Setting the minimum at a relatively high level provides aid to a greater number of children at a higher cost. It may also extend aid to families in which parents or guardians could support their children without help and may create incentives for people to depend on public aid instead of their own efforts. Setting highly restrictive eligibility requirements--and less generous minimum benefits--decreases government costs and increases incentives for people to become self-reliant, but it also risks leaving some children living below an acceptable standard. It is much more difficult to quantify needs for many services, and, thus, to determine the minimum amount of aid and who should receive it.

Related to this choice is the question of whether eligibility criteria and minimum benefits should differ geographically. National standards treat all recipients alike, but they fail to take into account differences among areas such as in the cost of living, or in the preferences of their citizens for aiding the poor.

Defining the Household. Another question is whether the type of household in which children live should affect eligibility for assistance. For example, aid can be provided to low-income families with children regardless of the composition of the household; or assistance can be denied to households in which there are two parents, one of whom is physically able to work and is free of child care responsibilities. The former approach assures that some assistance is available to all children living below the minimum established for the particular program, but it increases costs to the government and may reduce incentives that parents have to seek or accept employment. In contrast, denying aid to intact two-parent families reduces government costs and increases the parents' work incentives. It also creates incentives for families to break up, however, and creates hardships for some children--either because of decisions made by their parents or guardians not to work, because the employed adults are unable to earn enough to raise their families to the minimum standard, or because the adults cannot find jobs.

A related question is whether parents or guardians should be required to do some work in exchange for the aid they receive, or if they should be required to participate in training programs to enhance their long-term employment prospects. A work requirement may reduce the net cost of aid, depending on the value of the work done and the expense of administering the work requirement. Such a requirement may also increase the chances that those employed will become self-sufficient in the future. Job-training requirements can have an even greater long-term impact--depending on the effectiveness of the training--but they add to government costs, at least in the short run. Moreover, either approach may require the government to provide or finance child care, since the adults have to be away from their children for some part of the day. Also, if the parents refuse to participate, their children lose government help.

Defining Coverage. Still another question is whether aid should be available on an entitlement basis for all individuals who qualify and seek assistance, or if benefits should be provided to only some of those who could qualify. Entitlement programs treat all eligible people alike, but their costs are harder to control, requiring amendments to authorizing statutes. Appropriated programs are easier to control on an annual basis, but they generally result in some potential beneficiaries receiving less help than others, or none at all.

Finally, there is the question of whether people not currently in need should be helped so that they will not become needy in the future. In essence, the choice is when to assist the poor--earlier with preventive efforts, or later with ameliorative ones. Preventive policies may avoid deprivation for children and may reduce federal costs in the long run, but only to the extent that those who are at risk can be identified and effectively served.

What Form Should Assistance Take?

Another issue in designing antipoverty policies concerns the form that assistance from the government should take.

The Type of Aid. On one level, this concerns whether aid should be provided in the form of cash or in-kind transfers that meet current needs; services to help the poor deal with some of the consequences of poverty; or human capital development programs, designed to enhance skill and or other labor market policies that could increase self-sufficiency. [2]

Direct transfers help families meet immediate needs but do not deal with the underlying causes of poverty. Such aid may also reduce people's incentives to support themselves. A secondary issue is whether the government should provide cash or in-kind assistance. The former approach allows recipients to determine what use they make of their additional resources and may be more efficient, since it does not involve the government in deciding how much and what form any good or service should take. On the other hand, providing cash grants to low-income parents and guardians on behalf of their children carries no assurance that the aid will be used to meet particular needs of the children.

Services such as child welfare aid and educational assistance are special forms of in-kind assistance designed to prevent or reduce some of the potential adverse effects of poverty on children. Human capital development programs aimed at parents are designed to attack the causes of poverty by helping families earn more adequate incomes. Neither of these forms of aid offers help in meeting ongoing consumption needs. They may, however, be of great benefit to families who need more than short-term income supplements to overcome the causes or effects of their poverty.

Meeting Needs of Different Types of Families. A related question is what forms of assistance are best suited to particular types of poor families with children. The answer depends, in part, on the circumstances facing those families. Table II-1 classifies poor children by the duration of their spells of poverty and whether adult members of their families are generally employed.

Nearly 60 percent of poor children live in families that have members who normally work at jobs that keep them above the poverty line, but who are not currently employed for enough hours or at high enough wages to escape poverty. In general, incomes of these families--the short-term, working poor--will rise above the poverty thresholds in a relatively short time without intervention. Short-term income supplements can help bridge their periods of poverty, while employment assistance programs and national economic policies that create job opportunities can shorten the length of time that they are poor.

---

2. Human capital consists of the knowledge, skills, abilities, and experience that a person can use in employment or any other task. It includes basic skills such as reading and writing, as well as specialized skills applicable only to specific jobs. It also encompasses developed traits, such as punctuality and reliability, that contribute to success in labor markets.

About one in seven poor children lives in a family that is in economic transition--the nonworking, short-term poor. These families are likely either to be headed by single parents--especially single mothers--or to be young families just entering their working years. In some of these families, adult members may be able to obtain work fairly easily. In other instances, parents may lack necessary skills or experience. Altering labor market regulations to expand employment opportunities, or increasing training and employment assistance, can help such people find jobs more easily. Income supplements provide them with resources to meet their short-term needs.

Another one in seven poor children is in a family where there is a working adult, but where spells of poverty are lengthy, presumably because earners lack skills or are able to find only intermittent or part-time work. This group is also likely to include families whose size contributes to their poverty. These families may also benefit from training programs to develop labor market skills, in combination with employment assistance to help them

TABLE II-1. DISTRIBUTION OF POOR CHILDREN BY DURATION OF POVERTY AND FAMILY LABOR FORCE ATTACHMENT
(In percent of all children ever poor)

	Duration of Poverty	
Labor Force Attachment	Short Term a/	Long Term b/
Working c/	59	14
Nonworking d/	14	14

SOURCE: University of Michigan, Survey Research Center analysis of Panel Study of Income Dynamics data for 1968 through 1982.

a. Poor fewer than four years in a five-year period.

b. Poor for four or five years in a five-year period.

c. Head of family (and spouse, if any) worked at least 500 hours in at least three out of five years.

d. Head of family (and spouse, if any) worked fewer than 500 hours in at least three out of five years.

find better jobs. At the same time, transfer programs can increase their current resources, while social services can help ameliorate the consequences of their long-term poverty.

The remaining one in seven poor children--and the most difficult group to deal with--lives in a family that has no attachment to the labor market and therefore no likelihood of becoming self-sufficient. These nonworking, long-term poor families include: single-parent families, especially those headed by women, in which child care responsibilities make regular employment difficult; families whose normal earners are disabled to the extent that they cannot work; and families whose adult members have such inadequate skills or labor force attachments that they cannot or will not find and hold jobs. Because they provide essentially no support for themselves through earnings, and because they are poor for extended periods, these families impose the greatest demands on social welfare programs and account for a disproportionate share of those programs' costs. Intensive employment and training programs, as well as child care services, can aid those who have the potential and willingness to work. Workfare programs can also be appropriate for this group and for welfare recipients who can work but choose not to do so. Finally, transfers and social services help those such as the disabled who cannot work.

How Should Direct Aid Be Delivered?

A final set of questions concerns how direct assistance should be delivered in order to have the greatest impact at the lowest cost. Cash assistance, for example, can be provided either directly or through the administrative apparatus of the income tax system. Providing aid through the federal tax system may, in certain instances, be administratively simpler than through a direct spending program, but it increases the complexity of the tax code and limits aid to those who file returns. Similarly, direct spending programs financed by the federal government can be administered either by the federal government or by states and localities. More important, however, is the degree of flexibility given to local administrators. Greater flexibility enables them to respond to specific circumstances, but reduces federal control and may lead to differential treatment of similar families.

Other administrative questions arise in particular types of programs. For example, in-kind aid can be provided as actual commodities or as vouchers that can be used to buy specified goods. Services can be provided either by government offices or by publicly funded private agencies. Human capital development can be provided through public schools, other government-operated agencies, or the private sector.

THE CURRENT FEDERAL ROLE

The federal government currently plays a wide and diverse role in aiding poor families with children. Direct assistance policies provide cash, in-kind benefits, services to relieve the problems faced by poor families with children, and employment and training aid intended to help them support themselves in the long run. In addition, federal statutes and regulations affect the availability of low-wage jobs and the minimum amounts that workers can be paid. Finally, the federal tax system in general, and certain provisions in particular, affect the well-being of low-income families.

A number of cash and in-kind assistance programs--plus a tax credit for some families with low earnings--help low-income families with children meet their basic needs. 3/ Coverage is uneven, however, and average benefits vary geographically, sometimes greatly. Food Stamps--a federally financed program that helps families afford a minimally adequate diet--is the only assistance that is available to essentially all families in or near poverty. Aid to Families with Dependent Children (AFDC), which provides cash assistance, and Medicaid, which finances health care services, are shared federal/state responsibilities. Aid under these programs is available to most children living in single-parent families with incomes less than state-established minimums that are generally well below the poverty thresholds. States also determine whether assistance is provided to children living in two-parent families. This core of assistance is supplemented by subsidized housing programs, which reduce shelter costs for some low-income families with children; the Earned Income Tax Credit which reduces the tax liability, or provides cash payments, for low-income families with children and low earnings; and school-based meal programs that subsidize breakfasts and lunches for low-income children whose schools choose to participate.

The federal government also provides funding for a broad range of social services and education progams intended to alleviate some of the

---

3. This section considers only programs funded in whole or part by the federal government that are specifically designed to aid the poor. Some serve only children or families with children, while others serve those groups as part of a larger clientele. Other programs not considered here also reduce poverty by providing cash income to various groups. For example, Social Security survivors' benefits paid to spouses and children of deceased workers keep many families out of poverty. Because they are not targeted primarily toward poor families, however, they are not discussed in this section.

   Further, the focus of this section is on antipoverty programs that have the greatest impact on families with children. Some programs, such as Supplemental Security Income (SSI), benefit a small number of children but are primarily targeted toward other groups--in this case, the elderly and the disabled.

adverse consequences of poverty, and for employment and training intended to help the parents of poor children work their way out of poverty. Most of this aid is available through annually appropriated programs that serve only a small share of those who are eligible. Finally, direct spending programs are complemented by provisions of the tax system that subsidize wages for low-income workers and that help reduce families' child care costs.

As the following review indicates, current antipoverty efforts vary greatly in who is helped, what form assistance takes, and how aid is financed and administered.

Cash Transfer Programs

Cash assistance is provided to some poor families through the Aid to Families with Dependent Children (AFDC) program and through a provision of the federal income tax (see Table II-2).

The AFDC program is the principal federal device to assure that some minimum amount of resources is available to help meet the daily needs of low-income children. States administer the program, operating within federal guidelines, and they are free to establish their own income eligibility requirements and benefit levels. Costs are shared between the federal and state governments. Outlays for AFDC are expected to total $16.4 billion in fiscal year 1985, with slightly more than half contributed by the federal government. [4]

AFDC eligibility criteria and benefit levels vary greatly among states. They reflect differing judgments concerning who should be served and the appropriate scope of aid, and result in widely differing treatment for similar families living in different places. In January 1985, gross income limits for a single parent with two children ranged from $346 per month in South Carolina to $1,576 in Vermont (the median was $779). As of the same date, the maximum benefit for a single-parent, two-child family with no income was as low as $96 per month in Mississippi and as high as $719 in Alaska (the median was $327).

States also differ in their treatment of children of married couples. While children of single parents--and of married couples when one spouse is

---

[4] The federal share of benefit costs can vary from 50 percent to a maximum of 83 percent, depending on per capita incomes in each state. On average, the federal government pays 55 percent of benefit costs.

TABLE II-2. CURRENT CASH TRANSFER PROGRAMS THAT ASSIST POOR FAMILIES WITH CHILDREN

Program	Aid Provided	Eligible Groups	Number of People Served in 1984 (In millions) a/	Administered by:	Estimated Fiscal Year 1985 Budgetary Costs (In billions of dollars)
Aid to Families with Dependent Children	Cash grants	Low-income single-parent and some two-parent families with children	10.9	State	8.7 Federal 7.6 State 16.4 Total
Earned Income Tax Credit	Refundable tax credit	Taxpaying units with children and low earnings	5.6 b/	Federal	1.9 Federal c/

SOURCES: Congressional Budget Office and various federal sources.

a. Average monthly participation for AFDC; number of tax returns claiming the EITC.

b. Estimate for calendar year 1986.

c. Estimate for fiscal year 1986.

incapacitated--are eligible in all states, only about half the states allow any children in married-couple families to receive benefits through the unemployed parents program, AFDC-UP. 5/ These differences reflect in part differing judgments concerning the tradeoff between maintaining work incentives and encouraging families to remain together. 6/ Finally, there are differences among states in whether adult recipients are required to perform some work in exchange for their benefits.

Assistance is also provided to working poor families through the Earned Income Tax Credit. The EITC may be viewed both as a wage supplement for the working poor with children, and as an offset for Social Security contributions. It reduces tax bills for those who would otherwise owe taxes; it is paid in cash to families with no tax liability who file the necessary forms. For families with very low earnings, this may provide an incentive to work. 7/

In-kind Transfer Programs

In addition to providing cash, the federal government provides aid to poor families with children through in-kind transfers for food, medical care, and housing (see Table II-3).

In fiscal year 1985, an average of about 20 million people--over 80 percent of whom are in households with children--will be assisted each month through the Food Stamp program at a total cost of just over $12 billion. This program, benefit costs of which are funded entirely by the federal government, provides vouchers that can be used to buy food products. 8/ Nearly all people in families with gross cash incomes below 130

---

5. The 24 states that offer AFDC-UP generally pay higher benefits and have larger caseloads. About two-thirds of all AFDC families live in those states. States may also provide general assistance to poor families that are categorically ineligible for AFDC.

6. There are some work incentives within AFDC-UP, since it requires at least one parent to be registered in an employment program. If the primary earner works more than 99 hours per month, however, the family is ineligible for benefits.

7. For families with earnings between $6,500 and $11,000, the EITC is a work disincentive, however, since it raises their income and their marginal tax rate, both of which reduce the value of additional work hours.

8. Administrative costs are paid essentially equally by states and the federal government. For some specific expenses, such as computerizing case management and combating fraud and abuse, the federal share is greater than half.

TABLE II-3. CURRENT IN-KIND TRANSFER PROGRAMS THAT ASSIST POOR FAMILIES WITH CHILDREN

Program	Aid Provided	Eligible Groups	Number of People Served in 1984 (In millions)	Administered by:	Estimated Fiscal 1985 Budgetary Costs (In billions of dollars)
Food Stamps	Food vouchers	Most low-income families and individuals	20.9 a/	Federal	11.5 Federal a/ 0.8 State 12.3 Total a/
School Lunch, Breakfast	Free and reduced-price meals	Students with family incomes below 185% of poverty level	11.6 b/	State	3.1 Federal
Medicaid	Free or low-cost medical care	All AFDC and most SSI recipients; all children under age 5 in families meeting AFDC income and resource requirements (after phase-in); some medically needy	21.5	State	22.6 Federal 17.1 State 39.7 Total
Housing Assistance	Subsidized housing units	Families and elderly and handicapped individuals with low incomes	9.3	Local	11.0 Federal c/
Low-income Energy Assistance	Assistance in meeting home energy costs	Most low-income families and individuals	N.A.	State	2.1 Federal

SOURCES: Congressional Budget Office and various federal sources.

NOTE: N.A. = Not available.

a. Excludes food aid to Puerto Rico.

b. Average daily participation in free and reduced-price lunch programs in October 1984. A total of 3.1 million children received free or reduced-price breakfasts, some of whom also receive free or reduced-price lunches.

c. Excludes outlays of $14 billion to redeem outstanding Public Housing Authority notes used to finance capital costs. Also excludes forgone local property taxes.

percent of the poverty guidelines, "countable" incomes below 100 percent of the guidelines, and countable assets below $1,500 are eligible. [9] This is the only universally available entitlement among government transfer programs. School breakfast and lunch programs also provide free and reduced-price meals to poor children attending the over 80 percent of schools that offer at least one of the two programs. Federal outlays for these programs are expected to total about $3 billion in fiscal year 1985.

Funded by both states and the federal government, Medicaid finances medical care for all AFDC recipients, almost all families receiving Supplemental Security Income, and other people whom states may designate as "medically needy." Within federal guidelines, Medicaid programs are designed and run by state agencies, with eligibility rules and benefit levels varying widely across states. Over 20 million people currently receive Medicaid benefits, which will cost states and the federal government more than $40 billion in fiscal year 1985.

The bulk of housing aid is provided through rental assistance programs that currently pay a share of the rent for about 4 million low-income households living either in publicly or privately owned dwellings. This aid is primarily targeted toward elderly or handicapped individuals and families and to nonelderly families with children; as of 1983, about 41 percent of rental assistance went to the latter group, which made up nearly 45 percent of the eligible population. Eligibility and benefit levels are set by the federal government but vary across housing markets, reflecting differences in family incomes and housing costs. Spending for housing assistance is expected to total close to $11 billion in 1985. Unlike the other transfers, housing assistance is not an entitlement; it currently serves just under one-third of all eligible households with children.

Eligibility requirements differ greatly among cash and in-kind transfer programs. Rather than serving a single well-defined group of poor families, each program sets its own eligibility criteria--targeting different types of families, while trying to constrain program costs and maintain appropriate incentives related to work effort and family stability. For example, state-specific income cutoffs for AFDC benefits vary from about one-half the federal poverty thresholds to more than twice the poverty levels. [10] By contrast, food stamps are available to families whose gross incomes are less than 130 percent of the poverty level. Housing assistance is provided almost exclusively to families with incomes at or below half of the local median adjusted for family size--in 1983, the income cutoff for a four-person family ranged from 77 percent to 176 percent of the national poverty threshold. 11/

---

[9] Countable income is gross income less a standard deduction and deductions for work expenses, child care, excess housing costs, and medical care for the elderly. Households with an elderly member need not satisfy the gross income test and may have as much as $3,000 in assets.

[10] For three-person families, income limits for AFDC are based on need standards that vary among states. Maximum payment levels are well below this, however, ranging from 13 percent to 79 percent of poverty thresholds.

Ameliorative and Preventive Programs

A wide range of programs offer services both to ameliorate the current adverse effects of poverty and to prevent future poverty among children (see Table II-4). These programs differ from the previously discussed anti-poverty programs in a number of ways. First, many of them address specific problems that face some families with children--problems that may or may not be the result of poverty. Therefore, poverty status alone is frequently insufficient to guarantee eligibility, as families must also demonstrate need for the specific services offered. Second, although federal funding is supplied for all of these programs, in some cases it is only a small part of the total expenditure for a particular service. In general, social services are delivered by local agencies under state direction; they are thus unevenly distributed both within and across states. Finally, most of these programs are not entitlements; limited funding can restrict service levels with the result that some areas lack services entirely.

The largest general social services program is the Social Services Block Grant, which is currently funded at $2.8 billion. Under this program, states are allowed to fund, at their discretion, a wide range of services--including child care, child welfare, foster care, and adoption services. Other child welfare programs include Title IV-B and IV-E of the Social Security Act, which contribute to state funding for child welfare services. Eligibility for these services is based primarily on need for service, although poverty status is also considered in some cases.

The Supplemental Food Program for Women, Infants, and Children (WIC) provides nutritional supplements to approximately 3 million low-income infants, children, and pregnant women who are at nutritional risk, at

---

11. Asset limits also vary across the various programs. AFDC allows $1,000 of assets (excluding a house and up to $1,500 equity in one car), while families are eligible for food stamps as long as their assets are less than $1,500--$3,000 if there is an elderly member--from which the value of a home, some of the value of cars, and the values of specific other assets are excluded. Housing programs, on the other hand, have no explicit asset limit. If net family assets exceed $5,000, however, the greater of actual asset earnings or an imputed return from assets--using the current passbook interest rate--is included as income in determining eligibility.

TABLE II-4. CURRENT PROGRAMS THAT AMELIORATE THE EFFECTS OF POVERTY ON CHILDREN

Program	Aid Provided	Eligible Groups	Number of People Served in 1984 (In millions)	Administered by:	Estimated Fiscal Year 1985 Budgetary Costs (In billions of dollars)
Social Services Block Grant	Child care, child welfare, adoption, foster care, family planning, information and referral services	Determined by state	N.A.	State	2.8 Federal
Child Welfare					
Title IV-B	Foster care payments, child welfare services	Families in need of child welfare services	N.A.	State	0.2 Federal N.A. State
Title IV-E	Foster care payments	Foster families of children who are eligible for AFDC.	0.1 a/	State	0.5 Federal 0.4 State
Child Support Enforcement	Location of absent parents, and assistance in establishing and collecting child support	All families with an absent parent, with priority given to AFDC recipients	8.0 b/	State	0.6 Federal
Title X of Public Health Service Act	Family planning services	All individuals, with priority given to low-income clients	3.7	Federal/ local	0.1 Federal
Supplemental Food Program for Women, Infants, and Children (WIC)	Nutritional supplements, health care screening	Nutritionally-at-risk women, infants, and children under age 5, with family incomes below 185% of poverty c/	3.0 a/	State/ local	1.5 Federal
Head Start	Educational, social, nutritional, and medical services	Low-income preschool children	0.4	Federal/ local	1.0 Federal
Chapter I--Compensatory Education	Compensatory education	Educationally disadvantaged children	5.9 d/	State/ local	3.5 Federal

SOURCES: Congressional Budget Office and various federal sources.

NOTE: N.A. = Not available.

a. Average monthly participation.
b. Seventy-seven percent AFDC cases, 23 percent non-AFDC families.
c. States are allowed to set income eligibility guidelines between 100 percent and 185 percent of poverty. The majority use 185 percent of poverty as the upper eligibility limit.
d. Because of forward funding, this reflects funding provided in fiscal year 1983.

a 1985 cost of $1.5 billion. Education programs, such as the Head Start program and Chapter I--Compensatory Education--provide low-income children with educational experiences that they may not receive at home. While Head Start has several other aims as well, these programs share the goal of fostering children's mental development in order to improve their future ability to learn and become self-sufficient. Finally, programs related to teenage parenthood work to prevent teenage pregnancy and childbearing (which are closely linked to future poverty) through family planning and family life education. These programs also provide services to teenage parents to help them overcome the disadvantages of being an adolescent parent.

Programs to Promote Employability

The federal government sponsors several programs and provides tax credits that are intended to promote employability, either by expanding opportunities for employment and training or by subsidizing child care costs to enable parents to work or acquire additional education (see Table II-5). The federal cost of these activities is expected to total about $6 billion in the current fiscal year--$3.5 billion in outlays for employment and training programs; $0.4 billion in forgone revenues for a tax subsidy to encourage employers to hire disadvantaged workers; and $2.2 billion in forgone revenues for tax subsidies for child care costs to enable parents to work or to attend school.

The largest of the employment and training activities is the state block grant program authorized by Title II-A of the Job Training Partnership Act of 1982 (JTPA). Through this program, the federal government provides funds for training and related services for disadvantaged youth and adults. Other programs authorized by JTPA include a summer jobs program and the Job Corps, each of which is exclusively targeted toward disadvantaged youth. These programs are administered by states and localities, which select participants and design training, within federal guidelines. The programs are controlled through annual appropriations and serve only a small proportion of all eligible people.

The Work Incentive (WIN) program--another appropriated program--is targeted exclusively toward AFDC recipients. The workfare components of AFDC and other transfer programs are also intended to increase employment of disadvantaged people. Finally, the Targeted Jobs Tax Credit (TJTC) subsidizes the wages of disadvantaged workers by reducing the tax liability of their employers, thereby improving the workers' employability. Unlike the direct-spending training programs, TJTC is an entitlement.

TABLE II-5. CURRENT PROGRAMS TO PROMOTE EMPLOYABILITY FOR POOR FAMILIES WITH CHILDREN

Program	Aid Provided	Eligible Groups	Number of People Served in 1984 a/ (In millions)	Administered by:	Estimated Fiscal Year 1985 Budgetary Costs (In billions of dollars)
Job Training Partnership Act (JTPA) Title II-A	Training and related services	Economically disadvantaged people	1.2 b/	State/ local	1.9 Federal
JTPA Summer Youth Employment and Training	Summer jobs	Economically disadvantaged youth	0.8 b/	State/ local	0.8 Federal
Job Corps	Training and related services in residential centers	Economically disadvantaged youth	0.1	Federal	0.6 Federal
Work Incentive Program (WIN)	Job search and other assistance to achieve self-support	AFDC recipients	0.2	State/ local	0.3 Federal
Targeted Jobs Tax Credit (TJTC)	Tax subsidy for employers hiring eligible workers	Economically disadvantaged youth, welfare recipients, and other designated groups	0.6	Federal	0.4 Federal
Dependent Care Tax Credit	Nonrefundable tax subsidy for child care costs	Users of child care to enable parents to work or go to school	5.0	Federal	2.2 Federal

SOURCES: Congressional Budget Office and various federal sources.

a. Number of people for JTPA, Jobs Corps, and WIN; number of certifications for TJTC; number of taxpayers claiming the child care tax credit for 1982.

b. 1984 program year (July 1984 to June 1985).

Employment for poor families with children--and participation in training programs--is facilitated by assistance with child care. Direct subsidies for child care costs are currently provided primarily through the Social Services Block Grant, although data on actual spending by states for this purpose are not available. The dependent care credit in the individual income tax essentially refunds up to 30 percent of a family's child care costs--up to a maximum of $1,440. The credit is limited, however, to the extent of the family's tax liability, since it is not refundable. Businesses are encouraged to provide child care facilities for their employees through the deductibility of the costs of such care and the exclusion of the value of child care from the taxable income of employees.

OVERVIEW OF OPTIONS FOR HELPING CHILDREN IN POVERTY

Options for altering current federal policies to help poor children are as varied as the views regarding the appropriate role of government and the dynamics of poverty. As noted earlier, collective judgments concerning what the direct role of the federal government should be in meeting both immediate and long-run needs of poor children have changed appreciably over time, as reflected in the history of federal involvement. Much disagreement remains concerning the effectiveness of current efforts and the direction that policy changes should take in the future.

The Scope of Possible Changes

Alternatives to current policies include some that would comprehensively restructure the current welfare system--either by altering it or by doing away with large parts of it--and others that would leave the major elements of it intact, but would change either who is helped, how much assistance is provided to those who are eligible, or how aid is delivered. The variety of both comprehensive and incremental options reflects the wide range of views concerning government's responsibility and how it should be pursued.

Some proposals to substantially restructure the current system are premised on concerns regarding its fragmented nature and its uneven treatment of children living in different types of families or in different places. People who share these concerns have periodically proposed making the federal government fully responsible for providing a minimum income floor for all families with children. Such changes could involve federalizing the

AFDC program and, perhaps, Medicaid as well. Under some alternatives, other responsibilities that are now partially federal--such as support for elementary and secondary education--would be shifted entirely to states and localities. Comprehensive proposals of this sort would often involve increasing total federal resources devoted to aiding low-income families with children.

Other proposals for comprehensive change start from a very different premise--that the current public assistance system constitutes a substantial disincentive for low-income people to take responsibility for improving their own well-being. Those who hold this view contend that the federal government could best promote the long-term welfare of poor families by providing less direct aid, thereby compelling them to rely more fully on their own initiative. Some would combine this approach with removal of labor-market regulations that, they claim, substantially restrict the availability of low-paid jobs.

Comprehensive reform of the tax system--such as proposals currently being debated in the Congress--could also substantially affect the well-being of low-income families with children. For example, provisions that determine the tax entry level (the lowest income level at which taxes are owed)--including increasing the zero bracket amount or the personal exemption--could substantially change the tax liability of many such families.

While debate continues concerning these and other possible comprehensive changes, discussions in the Congress each year tend to be dominated by specific proposals to modify existing policies. These incremental approaches also vary greatly, however, reflecting the same disagreements regarding the causes and cures of poverty. Some proposals, for example, would either expand eligibility or increase benefits under existing programs in order to increase resources available to low-income families to meet immediate consumption needs. Others are designed to increase the opportunity for low-income people to become self-reliant, by, for example, increasing direct spending for job training, requiring that recipients of public assistance perform some work as a condition of their receiving aid, or altering government policies that may now limit private-sector job opportunities.

Options Examined in This Paper

The remainder of this paper describes more than 40 specific options that would alter existing federal policies affecting poor children and their families. While most of the options examined here would be considered incremental changes, some would involve fairly substantial modifications. Also, wide-ranging change could be accomplished by combining some of the individual options discussed here. Comprehensive proposals for wholesale shifts are not considered, nor are proposals to alter substantially how the tax system is structured or how it operates.

Two fundamental issues must be faced in deciding what the federal government should do to aid poor children. First, how effective would a particular approach be? This question is often difficult to answer fully. Even when the amount of aid is easily quantified, as in the case of cash benefits for poor families, it is difficult to know how much assistance actually reaches the children and thus what the impact will be on their well-being. In other cases, such as the provision of many social services, it is inherently difficult to assess the effectiveness of alternative policies. This paper presents evidence about the impacts of existing federal efforts and quantifies, where possible, the likely impacts of program changes on beneficiaries.

Even if there is general agreement that a particular approach is effective, however, the large projected federal budget deficits facing this nation generally require difficult tradeoffs. Because most proposals to modify current policies would require additional outlays or would reduce revenues, other demands on the government and limited tax revenues conflict with the desire to aid these children. As the Congress struggles to reduce deficits, choices among these competing factors are particularly difficult. Estimates of the budgetary effects are presented, when feasible, for the options examined here.

The specific options described below are organized by type of program. Chapter III considers changes in cash transfer programs. Chapter IV assesses ways to modify programs that provide in-kind benefits. Chapter V examines options for altering services that may prevent or ameliorate the effects of poverty. The last chapter discusses possibilities for increasing the employability of members of low-income families with children.

CHAPTER III

OPTIONS FOR CASH TRANSFER PROGRAMS

Means-tested cash transfers are currently provided for families with children primarily through Aid to Families with Dependent Children (AFDC) and, for the working poor, through the Earned Income Tax Credit (EITC). The following options involve modifying these existing transfers or creating a new one.

AID TO FAMILIES WITH DEPENDENT CHILDREN

AFDC is the only major federal program explicitly designed to give cash assistance to families with children. It provides monthly benefits averaging $321 to 3.7 million families with children. While federal guidelines must be followed, states are free to set need and payment levels and some eligibility requirements. As a result, there is wide variation in the terms under which families are given assistance and in the level of assistance they receive.

All states offer AFDC to single-parent families whose gross incomes are less than 185 percent of the state need standard, whose net incomes are below state payment standards, and the value of whose assets is less than $1,000. 1/ Maximum benefits that can be paid in 1985 to a family of three range from 13 percent to 79 percent of official federal poverty guidelines. Twenty-four states and the District of Columbia--which together contain about two-thirds of all AFDC participants--also offer benefits through the Unemployed Parents option (AFDC-UP) to poor married-couple families whose primary earners work less than 100 hours per month; the other 26 states do not provide intact families with AFDC cash transfers. 2/ Finally, receipt of AFDC benefits automatically qualifies people for Medicaid.

---

1. This amount is exclusive of the value of their homes and of up to $1,500 of equity in one car. States are allowed to set lower asset limits; seven states did so in October 1983.

2. The 24 states offering AFDC-UP in January 1985 were California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Washington, West Virginia, and Wisconsin.

All members of AFDC families who are at least 16 years old are required to register for work and training unless exempted; the most common exemptions are for disability, student status, or the responsibility of caring for a child under age six. Work is further encouraged by the exclusion of some work-related expenses and earnings in benefit computations. For example, families can subtract from their income up to $160 of child care costs per child per month, as well as a standard deduction of $75 per month to cover work-related expenses. In addition, during the first 12 months of program participation, $30 of monthly earnings--and during the first four months, one-third of any earnings remaining after other deductions--can be ignored. Each of these exclusions increases the gains from working by allowing AFDC families to keep a larger share of their earnings.

Overall, the federal government pays just over half of the costs of state AFDC programs, with the state's share based on its per capita income. 3/ The federal share is legislated to be at least 50 percent and can be as high as 83 percent. Currently, however, the largest share paid by the federal government is 78 percent for Mississippi.

The AFDC program could be changed in many ways, depending on the objectives. The wide variation in state benefit payments could be reduced by setting national minimum benefit levels. Relaxing eligibility criteria--either those based on family composition or those limiting financial resources--would allow additional families with children to receive benefits. Recipients could be encouraged to find jobs either by strengthening work requirements in the program or by allowing families to keep more of their earnings. Finally, by assuming a larger share of the costs, the federal government could encourage states to raise their benefit levels.

This paper examines six policy options regarding AFDC. If the Congress chose to modify the program, it could:

- Establish national minimum AFDC benefits;
- Expand AFDC eligibility for two-parent families by requiring all states to offer the AFDC-UP program or by eliminating eligibility distinctions between single- and two-parent families;
- Raise asset limits;

---

3. States may choose an alternative formula to determine the federal share, but no states currently do so.

- Require all employable AFDC recipients to participate in work-related activities;
- Change the amounts of earnings that are ignored in benefit calculations (earnings disregards); and
- Raise the share of new benefit increases paid for by the federal government (the federal "matching rate").

The first option would change program eligibility and benefit levels in those states that provide low benefits. The options dealing with married couples would reduce any current incentives to separate or divorce in order to qualify for AFDC. Increasing asset limits would make more low-income families eligible for benefits. Requiring participation in work-related activities might increase recipients' future employability, while raising "earnings disregards" might encourage more of them to work. By lowering state costs, an increase in the federal matching rate for benefit increases could encourage states to raise benefit levels by more than they otherwise would. Almost all the options examined here would, however, add to federal costs. 4/

Establish National Minimum AFDC Benefits

This option would address low state payment standards and variations across states in those standards by setting minimum benefit levels. The total value of AFDC benefits plus food stamps provided to a family with no other income would be set no lower than 65 percent of the poverty guideline for a family of that size. States with benefits already above the minimum would not be affected, while those with the lowest AFDC payment standards would be required to raise their benefit levels. For families without earnings, minimum AFDC payments in 1986 are projected to be $337 per month for two people, $396 per month for three people, and $467 for four people. 5/

---

4. The analysis of AFDC options in this section does not consider possible changes in hours worked by AFDC families or additional administrative costs that could arise from increased caseloads. Both factors might result in greater program costs and effects than shown, but their impacts would differ greatly across options. In addition, costs and effects are those that would occur after any phase-in period; if new participants did not all enroll during the first year the options were in effect, both costs and effects would be smaller than shown for fiscal year 1986.

5. Several options examined in this chapter are based on H.R. 4920, as requested by the Committee on Ways and Means. This bill--introduced in the 98th Congress--would require that the HHS poverty guidelines be projected ahead one year for use in setting these minimum benefit levels. Thus, in 1986, projections of the 1987 guidelines would (continued)

A national minimum would target increased benefits on single-parent families in states with low benefits. 6/ This would reduce interstate disparities for single parents--and for some couples--and therefore help to satisfy the objective of treating similar families alike. It would also reduce any incentives that such differentials create for poor families to move to areas with more generous benefits.

At the same time, setting minimum benefit levels in dollar terms would ignore cost-of-living differences among geographic areas, although benefit levels would still vary because of state supplements. While precise data do not exist, there is evidence that rural areas and the South have lower costs of living than do urban areas and other regions. Further, requiring low-benefit jurisdictions to increase payment levels could make welfare benefits a high percentage of potential earnings in low-wage areas, and thus lead to significant work disincentives. Finally, states that were forced to raise benefits significantly could experience budgetary problems.

An estimated 41 states would have to increase benefits above current levels for at least one family size in order to satisfy the requirements of this option in 1986. For 2.2 million families currently participating in the program (about three-fifths of all AFDC families), this would increase monthly benefits by an average of $111. At the same time, this rise in cash income would reduce benefits by about $38 per month for those families in the Food Stamp Program. 7/ An estimated 190,000 families would become

---

5. be used. The calculation of specific minimum benefits is as follows. Food stamp benefits equal the thrifty-food plan (TFP) less 30 percent of countable income--AFDC benefits minus a $100 standard deduction. For the three family sizes, these yield:

Family Size	65% of Poverty	AFDC Benefit	Food Stamp Benefit	TFP
2	420	337	83	154
3	528	396	132	221
4	636	467	169	280

6. Benefits would go primarily to single-parent families because those states that would be most affected by the required benefit increase do not provide AFDC-UP and therefore give no benefits to married-couple families.

7. Food stamp benefits are reduced, on average, about 34 cents for each dollar of additional cash income. For example, a $20 rise in AFDC would cause a food stamp cut of $6.80 (= 0.34 x $20), all of which would represent savings to the federal government. The net gain to the recipient would be $13.20 (= $20 rise in AFDC - $6.80 drop in food stamps). This would apply to any option in which AFDC or other cash benefits would be increased for food stamp recipients.

new AFDC recipients, receiving average payments of $197 per month. 8/ About 80 percent of new and increased benefits would go to families below the poverty level, which would cause the poverty gap--as measured by official poverty statistics--to decline by $2.7 billion. 9/ Roughly 0.1 million families would be moved above the poverty level, about 5 percent of the poor families affected.

Total AFDC costs would increase by $3.4 billion, $2.1 billion of which would be borne by the federal government and the balance by the states. 10/ The federal costs would be offset by $0.9 billion in food stamp savings and raised by $0.1 billion in Medicaid expenditures for new participants. The new participants would boost state costs by another $0.1 billion. Thus, the total cost of implementing this option would be $2.7 billion in fiscal year 1986, with about 48 percent of the net costs falling on the federal government. Because poverty thresholds are indexed to rise with the Consumer Price Index (CPI) and have risen faster than AFDC benefit levels in recent years, this increase in costs would climb in future years to a total of $3.7 billion in fiscal year 1990.

The national minimum benefit level could be set at other fractions of the poverty thresholds. Table III-1 compares the effects of fixing the minimum at 60 percent, 65 percent, and 70 percent. Compared with the 65 percent option, the lower minimum would affect about 700,000 fewer families and would lower incremental AFDC costs by about 40 percent in 1986. About 1.6 million families currently getting AFDC would receive benefit increases averaging about $89 per month, and 0.1 million families would come into the program and get monthly benefits averaging $195. The official poverty gap would decrease by roughly $1.6 billion, or by 40 percent less than under the 65 percent option. Setting the minimum at 70 percent

---

8. New recipients would be of two types: those families that were previously eligible but chose not to participate, and those made newly eligible by increased payment levels. It is assumed that higher benefits would induce about 25 percent of the estimated 240,000 currently eligible, nonparticipating families in affected states--or 55,000 families--to enroll in the program. Fifty-seven percent of the estimated 235,000 families that would become newly eligible--or 135,000 families--are projected to enroll. Total new participants would thus be 190,000 families.

9. The poverty gap would decline by less if an alternative measure that included in-kind benefits as income were used. Food stamp benefits going to poor families would fall by about $0.9 billion, while Medicaid costs for this group would rise by about $0.2 billion. Depending on the valuation method used, these effects would cause the net change in the poverty gap for poor families with children to decrease by about $2 billion.

10. The federal share is greater than the current 54 percent average because federal matching rates tend to be higher in states that now have the lowest payment standards.

TABLE III-1. ESTIMATED IMPACTS OF ALTERNATIVE MINIMUM BENEFIT LEVELS, FISCAL YEAR 1986

Minimum Benefit (Percent of Poverty) Threshold	Increase in AFDC Costs (In billions of dollars) Federal	State	Total	Affected Beneficiaries (In millions) Current	New	Affected States
60	1.3	0.7	2.0	1.6	0.1	33
65	2.1	1.3	3.4	2.2	0.2	41
70	3.1	2.0	5.1	2.3	0.3	43

SOURCE: Congressional Budget Office.

would raise incremental AFDC costs by half and would affect about 0.2 million more families than the original option. Current beneficiaries would average $160 in additional monthly benefits.

Expand AFDC Unemployed Parents Program

Married couples with children are eligible for AFDC benefits only if their primary earners are unemployed and if their states of residence have chosen to offer benefits under the optional Unemployed Parent program (AFDC-UP). 11/ At least one unemployed adult must have been employed in six of the previous 13 quarters and all nonexempt adults must be actively seeking work. Because unemployment is defined as working fewer than 100 hours per month, some families with part-time workers are eligible for benefits. Currently, 24 states and the District of Columbia offer AFDC-UP. In 1984, an average of 285,000 AFDC-UP families--7.7 percent of all AFDC families--received monthly benefits averaging $468.

---

11. Requirements of the AFDC-UP program are in the Social Security Act, Section 407 (42 U.S.C. 607). See footnote 2 of this chapter for a list of states having an AFDC-UP program in January 1985.

Two options to expand AFDC eligibility for two-parent families are discussed below:

- Make the current AFDC-UP program mandatory for all states; and
- Extend AFDC eligibility to all low-income, two-parent families, regardless of labor force status.

Make AFDC Unemployed Parents Program (AFDC-UP) Mandatory for All States. At present, unless one spouse is incapacitated, married couples with children are categorically ineligible for AFDC benefits in the 26 states that do not have AFDC-UP programs. In these states, intact families qualify for assistance only through limited, state-financed general assistance programs or through Supplemental Security Income (SSI) for families with disabled earners. This option would require all states to offer AFDC benefits to low-income, married-couple families with children under the AFDC-UP program. Only the 26 states that do not now have AFDC-UP programs would be affected. In 1984, these states had about one-third of the AFDC caseload.

This option would encourage families to stay intact by reducing the current incentive for one parent to leave home so that the family can become eligible for AFDC. 12/ Families would be treated more uniformly, as eligibility for benefits would be based on need rather than on family characteristics. This change would provide additional assistance to some families whose unemployment insurance eligibility has expired, and would thus expand countercyclical activity during recessions. Moreover, because the AFDC-UP program requires the unemployed person to have worked in the past and to be actively seeking a job, this option would provide additional incentives for poor families to join or remain in the labor force. Further, since the primary earner can be employed up to 99 hours per month without losing eligibility, extending the program would not discourage part-time employment while workers seek full-time jobs. Finally, since AFDC families are automatically eligible for Medicaid, health care coverage would be extended to some families that do not now receive adequate medical care.

This option could have significant drawbacks. First, it would take away from the states the authority to determine to whom assistance should

---

12. The incentive would still exist if the parent worked more than 100 hours per month.

be extended. Some states may view intact families as those most able to help themselves and thus least in need of aid. Second, to the extent that transfer programs provide disincentives for recipients to work, this option could reduce hours worked by eligible families, despite job-search requirements. Third, only families whose principal earners were either unemployed or working less than 100 hours per month would be assisted; no aid would be offered to poor families with full-time, low-wage workers. Finally, requiring AFDC-UP for all states would impose an increased financial burden on states that do not currently offer the program, as well as on the federal government. This requirement could also exacerbate the fiscal difficulties faced by those jurisdictions with budget problems and might lead states to reduce benefit levels.

About 100,000 additional families would become eligible for benefits in 1986 if all states operated AFDC-UP programs. Of these, an estimated 75,000 families--29 percent of the 1984 AFDC-UP caseload and 2 percent of all AFDC families--would become new recipients with average monthly benefits of $228. Nearly 80 percent of the new families would be in the South--where only the District of Columbia and 3 of 17 states now have AFDC-UP programs--and another 17 percent would be in the West--where 4 of 13 states offer AFDC-UP.

New fiscal year 1986 costs to the federal government would be about $0.2 billion, while the states would pay a similar amount. Because benefit levels are far below poverty thresholds in states without AFDC-UP programs, there would be virtually no effect on official poverty rates, but the officially measured poverty gap would be reduced by roughly $0.1 billion, about three-fifths of one percent. 13/

Since AFDC-UP provides benefits for families with unemployed workers, the costs and impacts of this option would depend heavily on macroeconomic conditions and the unemployment rate. The foregoing estimates have assumed an unemployment rate of 7 percent. With an unemployment rate of 9 percent instead, about 160,000 families would become newly eligible and nearly 100,000 families would become recipients; total costs would rise by about $0.5 billion, split fairly evenly between federal and state governments. Conversely, if the employment rate were 6 percent, the effects would be reduced by nearly one-fourth. Under the Congressional Budget Office's baseline economic projections--which assume

---

13. Changes in poverty gaps and rates using alternative measures would be similar. Reduced food stamp benefits would roughly balance out gains from the receipt of Medicaid benefits. Thus, counting in-kind benefits as income would have little, if any, effect.

that unemployment will decline to between 6 percent and 6.5 percent by the end of the decade--estimated incremental costs would average between $0.4 billion and $0.5 billion per year between now and 1990.

Extend AFDC Eligibility to All Low-Income, Two-Parent Families, Regardless of Labor Force Status. A more extensive option would require all states to provide AFDC payments to all families with children that meet income and asset requirements, regardless of their current or past employment. States would be allowed to limit receipt of benefits to six months out of twelve and to set stricter work requirements than for single-parent families. In addition, the federal government would increase its share of program costs to 75 percent for married-couple families. 14/

This option would address the objective of treating similar families alike by eliminating labor force status as a requirement for eligibility. In addition, it could provide a work incentive for families currently getting AFDC-UP, encouraging them to work as many hours as they are able without fear of losing all benefits (particularly Medicaid, for which AFDC receipt makes them eligible). Finally, it would reduce incentives for low-income working couples to break up so that the children and one parent could qualify for AFDC. 15/

On the negative side, possible work disincentives from the AFDC-UP limits on employment could be replaced by work disincentives arising from reductions in benefits as earnings increased and from the higher transfer incomes received. In addition, extending AFDC to all poor families with children--regardless of hours worked--would impose a considerable financial burden on the federal government and the states in a time of fiscal stress. While the increased share of costs falling on the federal government would lessen the impact on state budgets, it would exacerbate federal budget problems.

---

14. These additional requirements are included to make this option the same as that in H.R. 4920. Note that, in effect, this option would require all states to offer AFDC-UP programs. The analysis in this section assumes that states would elect to pay benefits for exactly six months out of each year and that work requirements would not be changed. If states chose to pay benefits for longer periods, the effects and costs would be greater. Stricter work requirements would likely reduce participation, but the size of the effect would be hard to estimate. Maintaining current cost divisions between federal and state funding would shift costs from the federal government to the states, relative to what is reported here.

15. The incentive would still exist if one parent had income that would make the family ineligible. By separating, such a family might receive greater total income.

An estimated 450,000 families would become AFDC recipients if this option were implemented. Under the assumption that states would provide benefits for only six months each year, payments would average about $397 per month during the six-month benefit period. Because benefit levels are generally well below poverty, there would be virtually no effect on poverty rates. The official poverty gap for poor families with children would decrease by about $0.8 billion--roughly 3.3 percent. 16/

Federal costs of this option in fiscal year 1986 would be about $1.3 billion: about $1.1 billion for AFDC payments and $0.4 billion for Medicaid payments, with savings of $0.3 billion in food stamps. Because the federal share of AFDC benefits for two-parent families would be raised to 75 percent, states as a group would save about $0.1 billion in AFDC costs. 17/ Replacement of general assistance with AFDC would save another $0.1 billion in state costs, but these savings would be more than offset by $0.4 billion in additional state Medicaid costs. Overall, states would spend an additional $0.2 billion. The total increase in costs--federal and state--would be roughly $1.5 billion. 18/

Raise AFDC Asset Limits

In addition to income-eligibility requirements, AFDC recipients must satisfy an asset test. Currently, an AFDC family cannot have more than $1,000 in countable assets. Excluded from these assets are the family's home, basic maintenance items such as clothing and furniture, and one car with an equity value of up to $1,500. The asset limit is fixed in dollar terms and therefore has become more restrictive in real terms over time.

This option would increase asset limits to $2,250, or to $3,500 for families with at least two members, one of whom is age 60 or over. In addition, the value of life insurance would be excluded, and the treatment of

---

16. To the extent that states provided benefits for more than six months, the poverty gap would fall further.

17. Such savings would go only to states now offering AFDC-UP because other states currently have no costs.

18. Because of the large number of new participants, this option could also cause a significant increase in administrative costs--perhaps as much as $0.2 billion annually. Further, the availability of AFDC benefits would encourage some two-parent families to work less; that could raise costs by as much as $0.1 billion per year.

automobiles would be liberalized. 19/ The new limits were recommended for the Food Stamp Program by the President's Task Force on Food Assistance, primarily in recognition of the fact that inflation had eroded the real value of the asset limits.

Higher levels of allowed assets would mean that families would not have to spend as much of their savings to qualify for benefits. Having some assets to meet unexpected emergencies is important both psychologically and practically. In addition, as the President's Task Force on Food Assistance noted, some countable assets--such as recreational vehicles--are not readily marketable; increasing asset limits would allow families to have some such assets without losing eligibility. Finally, the Task Force noted that, because of time lags in actually getting program benefits, "households living off their assets may get precariously close to complete depletion of assets before they fall to the eligibility level and benefits begin." 20/ Higher limits would allow for a greater margin of safety.

On the other hand, it has been argued that programs such as AFDC are for those truly in need and that families with significant assets are not in need since they could use those assets. In addition, raising asset limits would allow some families who are without income for only a short period to receive benefits, even though their assets are more than adequate to tide them over until their incomes recover.

Because data on assets are scarce, it is difficult to estimate accurately the effects of this option. There would be no effect on families currently on AFDC, but between 45,000 and 140,000 families that are not now eligible could come onto the rolls. Besides average AFDC payments of about $326 per month, these families would also be eligible for Medicaid benefits. At the same time, for those new recipients currently in the Food Stamp Program, monthly food stamp allotments would be reduced by as much as $100 or more because of the increase in their cash income. 21/

---

19. Two tests would be used for cars. The market value test would count the market value of each car only to the extent that it exceeded $5,500. The equity test would exclude one car--and a second if it was needed for employment--but would count the full equity value of all other cars. The greater of the market and equity values would then count against the overall asset limit.

20. *Report of the President's Task Force on Food Assistance* (1984), p. 43.

21. The food stamp asset limit is $1,500, or $3,000 for households with elderly members; exclusions include the home, personal items such as furniture and clothing, and some of the equity in automobiles. Because these limits are above those currently used for AFDC, some families denied AFDC because they have too high a value of assets may be eligible for food stamps. At the same time, because the asset limits in this option would be greater than the food stamp limits, not all families that would become eligible for AFDC would qualify for food stamp benefits.

In fiscal year 1986, AFDC costs would rise by between $0.2 billion and $0.6 billion, and Medicaid costs would increase by between $0.1 billion and $0.2 billion. These increases would be partially offset by food stamp savings of $0.1 billion or less. The net increase in costs in fiscal year 1986 would be between $0.2 billion and $0.7 billion, shared roughly equally by the federal government and the states.

Asset limits could be set at other levels than those described above. If they were made equal to those now used for food stamps ($1,500 for nonelderly families), between 10,000 and 85,000 families would participate in AFDC. AFDC costs would increase by as much as $0.3 billion in fiscal year 1986. Alternatively, if the asset restrictions were eliminated, the AFDC caseload would grow by between 200,000 and 425,000, or 5 percent to 12 percent of families currently in the program. AFDC costs would increase by between $0.7 billion and $1.5 billion in 1986.

Require Employable AFDC Recipients to Participate in Work-Related Activities

Current rules governing the receipt of AFDC require all members of AFDC families who are at least 16 years old to register for work and training, unless exempted. The Omnibus Budget Reconciliation Act of 1981 (OBRA) authorized states to strengthen these rules by requiring certain recipients to work in exchange for their benefits. In response to this legislation, about half of the states implemented some type of employment-related program, although in most cases the program is not statewide. Under these "workfare" programs, recipients work for a specified number of hours each month, the number depending on the size of their benefit.

One option would be to require all states to implement work-related programs for AFDC recipients on a statewide basis. Proponents argue that current AFDC rules in jurisdictions that have not implemented workfare allow recipients who could work to choose not to do so, and that making participation in workfare or related programs a condition of eligibility would limit this possibility. Proponents also claim that requiring recipients to work for their benefits would raise the dignity of the recipients, as well as provide a better example for other family members. Moreover, they contend that workfare would provide welfare recipients with opportunities to increase their skills and credentials so that they could become self-sufficient.

On the other hand, opponents dispute many of these claims. Some view workfare as unnecessary and punitive, arguing that only a small percentage of AFDC recipients choose not to work. Moreover, they believe that requiring recipients to work at assigned jobs could, in itself, be demeaning and subject to abuse. Opponents also question the value of the skills and credentials that would result from employment under these terms. They contend that the value of the goods and services produced might be low, relative to the cost of creating the jobs and supervising the participants. Many of these issues are analogous to those raised with respect to the public service employment components of the former Comprehensive Employment and Training Act.

It is not clear whether workfare would reduce net welfare costs. The net cost or savings would depend on the costs of administering workfare, its effects on the welfare caseload, and the value of the goods and services produced by the participants. A key issue is whether workfare would reduce the number of people receiving AFDC--either in the short run because some recipients might voluntarily leave AFDC in preference to taking a work assignment, or in the long run by equipping participants with skills and experience that would enable them to become self-sufficient.

Reliable information does not yet exist to answer the empirical questions raised by proponents and opponents of workfare. Several of the work-related demonstration programs that states established in response to the OBRA provision are currently being evaluated. These studies should soon provide a much better basis for assessing the feasibility and cost-effectiveness of workfare strategies than now exists. 22/

Liberalize the AFDC Earnings Deductions

Under current law, part of an AFDC family's earnings are excluded when payment levels are determined. Benefit calculations deduct from income $75 monthly for work-related expenses and up to $160 monthly per child for child care costs. In addition, during the first 12 months of employment, $30 of earnings per month are excluded, as is one-third of remaining earnings during the first four months. The only deduction allowed from unearned

---

22. The Manpower Demonstration Research Corporation (MDRC) is evaluating employment initiatives for welfare recipients in eight states, using experimental designs in which eligible welfare recipients are randomly assigned to workfare (or other) activities or to control groups. Preliminary findings for a program in San Diego, California, for example, indicate the feasibility of implementing two program models. One program required eligible welfare applicants to participate in a three-week job search workshop; another required applicants who completed the workshop but were unable to find jobs to participate in a 13-week unpaid work project. See Barbara Goldman and others, *Findings from the San Diego Job Search and Work Experience Demonstration*, MDRC (March 1985).

income is $50 monthly in child support payments. Thus, a single mother earning $500 per month and paying $200 monthly for day care for two children would have countable income of $130 per month for the first four months, $195 for the next eight months, and $225 thereafter (see box). In this example, because benefits are reduced by one dollar for each dollar of countable income, the family's AFDC monthly payment would decrease by $65 after four months and by another $30 after twelve months.

While an option to allow workers to retain more of their earnings could be framed many ways, the particular form considered here would change the work expense deduction to 20 percent of gross earnings up to a maximum deduction of $175; cap the monthly child care deduction at $320; and raise the amount of earned income excluded to $50 per month and one-fourth of additional earnings without any time limit. 23/ The entire value of the earned income tax credit (EITC) and the first $50 of monthly unemployment compensation would be deducted from income as well. Finally, the gross income limit of 185 percent of each state's need standard would be removed.

Increasing the amount of earnings that is not counted in calculating benefits could give AFDC families a greater incentive to work, since they would be allowed to retain a larger fraction of earnings as a net income gain. To the extent that AFDC families would work and earn more as a result, this would lead to lower program costs as earnings would replace some benefits. Changing the work expense deduction to a percentage of earnings would reflect more accurately some costs of working--namely, payroll and income taxes, which have become increasingly important for the poor. 24/ Removing the time limit on the general earnings deductions would eliminate the reduction in benefits after four months and again after twelve months that is imposed on working families--but not on those who do not work. Finally, dropping the gross income eligibility requirements would recognize that some families with high gross incomes are in need of assistance because of higher than normal expenses or because of large family size.

---

23. This option reflects the provisions of H.R. 4920. In addition, the "$50 and one-fourth" deduction would apply in the eligibility determination as well as the benefit calculation. Currently, eligibility requirements are that gross income be less than 185 percent of the state need standard and that countable income before deducting the $30 and one-third is also less than the state need standard. Only after eligibility is determined is the $30 and one-third deduction used to calculate benefits. It should be noted, however, that the eligibility calculation is made only when the family enters the program.

24. Married couples with two children and earnings at the poverty line now pay over 10 percent of their income in federal income and payroll taxes. In 1978, the comparable value was 4 percent (Ways and Means Committee Print 98-15, p. 151).

CURRENT TREATMENT OF EARNINGS DEDUCTIONS IN AFDC

This example assumes a family composed of a single mother with two children, earning $500 per month and paying $200 monthly for day care. Maximum AFDC benefits for such a family are assumed to be $327.

	Months on AFDC		
	1 to 4	5 to 12	Over 12
Calculation of Countable Income			
Gross earnings	$ 500	$ 500	$ 500
Less deductions:			
Work-related expenses	-75	-75	-75
Day care	-200	-200	-200
$30 (first 12 months)	-30	-30	--
1/3 (first 4 months)	-65	--	--
Countable income	$ 130	$ 195	$ 225
Calculation of AFDC Benefits			
Maximum AFDC payment	$ 327	$ 327	$ 327
Less countable income	-130	-195	-225
AFDC benefits	$ 197	$ 132	$ 102

The option can be criticized on a variety of grounds. First, it can be argued that work expense deductions ought to be only for actual expenses, not a fraction of income. Because circumstances differ among families, a fixed percentage deduction can overstate costs for some and understate them for others.[25] Second, along similar lines, capping the child care deduction denies exclusion of costs that some large families incur in obtaining care for many children. Such families could be discouraged from obtaining jobs if full child care costs were not deductible. Finally, critics argue that recent evidence about the effects of reducing earnings disregards in 1981 indicates that the disregards may actually be work disincentives.[26] If so, increasing the disregards may actually make working families more dependent on welfare and raise costs further.

Except for the "$50 and one-fourth" earnings deduction, the provisions of this option would individually have only small budgetary effects. Table III-2 summarizes the state and federal costs of each part of the option and of the entire package. The total 1986 cost would be about $0.5 billion, somewhat over half of which would be attributable to the $50 and one-fourth deduction alone. Increased AFDC benefit costs would be $385 million and Medicaid costs would rise by $175 million, while reduced food stamp benefits would save the federal government about $100 million. The latter savings would limit the federal share of the incremental costs to 43 percent.

There would be losers as well as gainers among current recipients. Families with earnings below $375 per month would be adversely affected by the change in the work expense deduction, while those with higher earnings would gain. The shift in the earnings deduction from $30 and one-third to $50 and one-fourth would generate higher benefits for families with earnings (net of work expense and child care deductions) below $210 and lower benefits for those with higher earnings.[27] In addition, eliminating the time limit on earnings deductions would raise benefits for families that have

---

[25] The same objection could be raised against the current work expense deduction as well. The proposed deduction is probably a more accurate reflection of costs than is current law.

[26] It was found that "...people leaving the welfare rolls after the (1981) cuts were actually less likely to return to welfare than people who had left the rolls when all the work incentives were still in place." (Nicholas Lemann, "The Culture of Poverty," *Atlantic Monthly* (September 1984), p. 38.

[27] This would be true only during the first four months of work, since the one-third reduction currently is available only during that period.

TABLE III-2. COSTS OF INCREASING DEDUCTIONS FROM INCOME, FISCAL YEAR 1986 (In millions of dollars) a/

Change	Costs		
	Federal	State	Total
Deduct 20 Percent of Gross Earnings up to $175 per Month	15	20	35
Cap a Family's Child Care Deduction at $320 per Month	b/	b/	b/
Deduct $50 and One-Fourth of Net Earnings	105	130	235
Eliminate Gross Income Limit	10	15	25
Disregard EITC	5	10	15
Disregard $50 of Monthly Unemployment Compensation	15	15	30
Total c/	195	260	455

SOURCE: Congressional Budget Office.

a. Costs are for AFDC, Medicaid, and food stamps.

b. Less than $5 million.

c. Total costs are greater than the sum of the separate provisions because of interactions among them.

had earnings for four consecutive months while in the program. The child care expense cap would reduce AFDC payments for families with expenses above $320 per month. If all the deduction options were implemented, about 60,000 families would lose an average of roughly $15 per month in benefits in 1986, while over 150,000 families would have their benefits increased by $69 per month on average.

The new provisions would also make more families eligible for AFDC, primarily because of the $50 and one-fourth deduction. An estimated 190,000 families would enter the program and receive monthly benefits averaging $116. Because recipients have incomes that are generally far below poverty thresholds, there would be little effect on poverty rates. The poverty gap would be reduced by about 1 percent, or roughly $0.2 billion. Table III-3 summarizes these effects.

Raise Federal Matching Rate on New Benefit Increases

Between 1970 and 1985, the real value of AFDC benefits fell as states failed to increase payment levels in line with inflation. In 13 states, maximum benefit levels declined by at least 40 percent in real value, and in the median state the real value decreased by 33 percent. Only three states--California, Maine, and Wisconsin--raised benefits by as much as the change in the CPI. Table III-4 shows changes in AFDC benefit levels between 1970 and 1985.

This option would encourage states to maintain real AFDC benefits by reducing the state matching rate by 30 percent for any increases made after a selected date. For example, if the state matching rate was 40 percent, the matching rate for benefit increases would be 28 percent. Because of the interaction between AFDC and food stamps, states currently bear more than their matching-rate share of the costs of providing higher AFDC benefits. A $20 AFDC increase reduces food stamp benefits by $6, so the net gain to recipients is $14; if the state matching rate is 50 percent, the state's costs are raised by $10--half of $20--while the federal cost for AFDC and food stamps combined climbs only $4. The effective state matching rate is thus 71 percent, or 21 percentage points above the statutory maximum of 50 percent. 28/

Reducing the state matching rate on benefit increases by 30 percent would make the effective matching rate equal to the statutory rate. 29/ Lowering their costs of raising benefit levels might make states more

---

28. Of the $14 increase in purchasing power for the recipient, 71 percent (= $10/$14) comes from the state and only 29 percent (= $4/$14) from the federal government.

29. In the example given, the effective state matching rate on the benefit increase would be 35 percent, 30 percent less than the original matching rate of 50 percent: 35 percent = 0.7 x 50 percent. The federal government would then pay $13 (= 65 percent of $20) for AFDC and save $6 (= 30 percent of $20) on food stamps for a net cost of $7, while the state would pay $7 (= 35 percent of $20) more for AFDC.

TABLE III-3. ESTIMATED EFFECTS OF LIBERALIZING EARNINGS DISREGARDS ON BENEFITS OF AFDC FAMILIES, FISCAL YEAR 1986

	Families Affected		
	Number	Percent of Affected Families	Average Monthly Benefit Change (In dollars)
		Gainers	
Current AFDC Families	155,000	38	69
New AFDC Families	190,000	47	116
All Gainers	345,000	85	95
		Losers	
Current AFDC Families	60,000	15	-15
		All Affected Families	
Current AFDC Families	215,000	53	46
New AFDC Families	190,000	47	116
All AFDC Families	405,000	100	79

SOURCE: Congressional Budget Office.

willing to do so. To the extent that this was done, poor families with children would be better protected against inflation.

At the same time, the higher federal matching rate would provide a windfall gain to states that would have raised their benefits anyway; the federal government would pay 30 percent of the additional costs that would otherwise have been borne by the states. Further, this option might lead to wider variation in benefit levels across states, since some states would still be more likely to raise benefits than others. If the goal is to ensure that real benefit levels are maintained or that benefits are more uniform, a more direct approach such as mandatory minimum real benefit levels or a national minimum (see above) might be more effective and less costly.

TABLE III-4. CHANGES IN MAXIMUM AFDC BENEFITS FOR A FOUR-PERSON FAMILY, BY STATE, 1970 TO 1985

	July 1970 Benefit (In dollars)	January 1985 Benefit (In dollars)	Changes (In percent)	
			Current Dollars	Constant Dollars
Alabama	81	147	81	-33
Alaska	375	800	113	-21
Arizona	167	282	69	-38
Arkansas	100	191	91	-29
California	221	660	199	10
Colorado	235	420	79	-34
Connecticut	330	636	93	-29
Delaware	187	336	80	-34
District of Columbia	238	399	68	-38
Florida	134	284	112	-22
Georgia	133	245	84	-32
Hawaii	263	546	108	-23
Idaho	242	344	42	-48
Illinois	282	368	30	-52
Indiana	150	316	111	-22
Iowa	243	419	72	-36
Kansas	244	422	73	-36
Kentucky	187	246	32	-51
Louisiana	109	234	115	-21
Maine	168	465	177	2
Maryland	196	376	92	-29
Massachusetts	314	463	47	-46
Michigan a/	263	512	95	-28
Minnesota	299	611	104	-25
Mississippi	70	120	71	-37
Missouri	130	308	137	-13
Montana	228	425	86	-31
Nebraska	200	420	110	-22
Nevada	143	279	95	-28
New Hampshire	294	429	46	-46

TABLE III-4. (Continued)

	July 1970 Benefit (In dollars)	January 1985 Benefit (In dollars)	Changes (In percent)	
			Current Dollars	Constant Dollars
New Jersey	347	443	28	-53
New Mexico	182	313	72	-37
New York b/	336	566	68	-38
North Carolina	158	244	54	-43
North Dakota	261	454	74	-36
Ohio	200	360	80	-34
Oklahoma	185	349	89	-30
Oregon	225	468	108	-23
Pennsylvania	313	444	42	-48
Rhode Island	263	547c/	108	-23
South Carolina	103	229	122	-18
South Dakota	300	371	24	-54
Tennessee	129	168	30	-52
Texas	179	201	12	-59
Utah	212	425	100	-26
Vermont	304	622	105	-24
Virginia	261	379	45	-46
Washington	303	561	85	-32
West Virginia	138	249	80	-33
Wisconsin	217	636	193	8
Wyoming	227	310	37	-50
Median State d/	221	379	81	-33

SOURCES: U.S. House of Representatives, Committee on Ways and Means, *Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means*, Committee Print 99-2 (February 22, 1985), pp. 352-353, and Congressional Budget Office.

a. Michigan data are for Detroit only.
b. New York data are for New York City only.
c. Winter rate (November through April). Summer rate was $440 in 1984.
d. Among 50 states and the District of Columbia.

Since the reactions of the states are unknown, the effects of this option are impossible to predict with confidence. It is likely, however, that states would, at a minimum, continue to raise nominal benefit levels at the same rate they have in the past; on that assumption, a minimum estimate of costs can be made. Under this scenario, there would be no effect on AFDC recipients, but part of the state share of program costs would be shifted to the federal government. A maximum estimate of costs can be made by assuming that states would respond to the higher federal matching rate by raising benefits faster than in the past--for example, by amounts that would leave their costs unchanged. Under these scenarios, and assuming implementation in fiscal year 1986 for benefit increases relative to December 1983 levels, federal costs would rise by between $0.1 billion and $0.2 billion in 1986, rising to between $0.4 billion and $0.9 billion by 1990. States would save as much as $0.1 billion in 1986 and $0.4 billion in 1990.

Because of the nature of this option, the effects on AFDC recipients cannot be estimated with any degree of accuracy. Some states would likely raise benefits more than otherwise, while others would not, and it is impossible to predict which states would follow which course. The most that can be concluded is that some families would benefit, although their numbers and the size of their payment increases cannot be estimated.

Comparison of and Interactions Among AFDC Options

While most of the options discussed above would, on average, increase either the number of recipients or average benefit levels or both, their costs and effects would vary widely. If more than one option was implemented, interactions between them could magnify both the costs and effects.

Table III-5 compares the costs and effects of specific options. The most comprehensive--and most expensive--option would be to establish minimum benefit levels. This alternative would aid all current recipients in low-benefit states and would enable many low-income families not now eligible for AFDC to collect benefits. Extending eligibility to all low-income, two-parent families, regardless of employment status, would result in the greatest increase in recipients, as an estimated 450,000 families would join the program. That option would have the highest cost per affected family, because recipients would also be newly eligible for Medicaid benefits. Changing earnings deductions as specified here would affect about the same number of families, but would yield smaller benefit changes for affected families and would cause some families to lose benefits. The changes in deductions would have mixed effects on AFDC

TABLE III-5. COMPARISON OF AFDC OPTIONS

Option	Affected Families	Number of Families Affected (In millions)		Average Benefit Change (In dollars per month)		Fiscal Year 1986 Cost (In billions of dollars) [a]			Change in the Official Poverty Gap for Families With Children (In billions of dollars)
		Current Families	New Families	Current Families	New Families	Federal	State	Total	
Minimum Benefit 60 percent of roverty	Categorically eligible families in low-benefit states	1.6	0.1	89	195	N.A.	N.A	N.A.	-1.6
65 percent of poverty		2.2	0.2	111	197	1.3	1.4	2.7	-2.7
70 percent of poverty		2.3	0.3	160	208	N.A.	N.A.	N.A.	-3.9
Extend Benefits to Two-Parent Families									
All states, current eligibility rules	Two-parent families with unemployed earners in non-AFDC-UP states	0	0.1	--	228	0.2	0.2	0.4	-0.1
All poor families, regardless of employment status	Two-parent families not currently eligible due to employment status or living in non AFDC-UP states	0	0.4	--	397	1.3	0.2	1.5	-0.6
Liberalize Asset Limitations	Low-income families with assets above current limits								
$2,250		0	<0.1	--	326	0.1-0.3	0.1-0.4	0.2-0.7	N.A.
Current food stamp limits		0	<0.1	--	N.A.	<0.2	<0.2	<0.3	N.A
No limits		0	0.2-0.4	--	N.A.	0.4-0.8	0.3-0.7	0.7-1.5	N.A.
Require Employable Recipients to Participate in Work-Related Activities	All recipient families with employable members not now working and not otherwise exempted from work	Costs and effects of this option cannot be estimated for lack of data.							
Liberalize Earnings Deductions	Primarily families with earnings	0.2[b]	0.2	69[c]	116	0.2	0.3	0.5	-0.2
Reduce State Matching Rates for Benefit Increases	Unknown since state behavior cannot be predicted	<3.7	N.A.	0-7	N.A.	0.1-0.2	-0.1-0	0-0.2	N.A.

SOURCE: Congressional Budget Office estimates.

N.A. = Not available

[a] Combined budgetary effect of changes in AFDC, food stamps, and Medicaid.

[b] 155,000 current recipients would gain benefits, while 60,000 would get less.

[c] Average benefit increase for those current recipients whose benefits rise. Recipients whose benefits would fall would lose an average of $15 per month

payments, with some provisions targeting benefits toward recipients with low earnings and others targeting benefits toward families with higher earnings. With the exception of completely eliminating asset limitations, the other options would generally affect smaller groups and have lower costs.

Table III-6 compares the costs and effects of various combinations of AFDC options. Interactions among the options would cause costs and effects to be larger than the sum of the individual ones. For example, if the minimum benefit option was enacted at the same time as the options to extend AFDC eligibility to all two-parent families and to change deductions, the higher benefits and increased deductions together would allow about 0.5 million more families to join the program. In 1986, AFDC costs would be roughly $1.1 billion--or about 22 percent--greater than the sum of the costs of the three options taken alone.

THE EARNED INCOME TAX CREDIT

The present earned income tax credit was introduced as a temporary provision with the Revenue Adjustment Act of 1975 and was made permanent in 1978. It is available only to low-income taxpayers. The credit is intended to provide a work incentive and to offset the burden of Social Security payroll taxes on these workers, including the working poor who have no federal individual income tax liability. This objective is achieved by making the credit refundable. 30/ Perhaps the most important aspect of the current earned income tax credit is its restriction to families with children. This is partly to limit the cost of the credit, thus allowing a larger credit to eligible families with children. This restriction also targets benefits to those most likely to be on welfare.

Under current law, certain individuals or couples with children are allowed a refundable tax credit equal to 11 percent of the first $5,000 of their earnings, to a maximum credit of $550. 31/ The credit is phased out

---

30. Refundable tax credits are payable regardless of other tax liabilities. Thus, taxpayers with incomes too low to owe taxes can have the full value of refundable credits paid to them if they file tax returns. Nonrefundable credits, in contrast, can only be used to offset positive tax liabilities; they serve only to reduce the tax to zero and the excess above the tax liability is lost.

31. To receive the credit, a married couple must file a joint return and qualify for a dependency exemption for a natural or adopted child or a stepchild. Heads of household also qualify if their household includes a child or descendant of a child; the child or descendant must be either unmarried or a dependent by the dependency exemption definition. There is no limitation on the age of the child.

TABLE III-6. ESTIMATED TOTAL COSTS AND EFFECTS OF SELECTED COMBINATIONS OF AFDC OPTIONS (Fiscal Year 1986)

Combination of Options	Increase in AFDC Costs (In billions of dollars)		Families Affected (In millions)	
	Sum of Individual Options	Combination of Options	Sum of Individual Options	Combination of Options
Minimum Benefit Equal to 65 Percent of Poverty and All Two-Parent Families Eligible	4.5	4.7	2.8	2.9
All of Above Plus Increasing Deductions	4.9	6.0	3.2	3.7
All of Above Plus Liberalizing Asset Restrictions	5.3	6.4	3.3	3.8
All of Above Plus Reducing States' Matching Needs for Benefit Increases	5.5	6.7	3.3 a/	3.8 a/

SOURCE: Congressional Budget Office.

a. Because of uncertainty about the effects of the proposal to reduce states' financing shares, it is not possible to estimate how many additional families would be made better off.

evenly as earnings rise between \$6,500 and \$11,000. 32/ The amount of the credit is independent of the number of children in the household, once the required qualifying child is present. In real terms, the maximum credit is considerably lower than it was in 1979, and because of rising nominal earnings, many fewer families now qualify for it than did five years ago. Table III-7 shows the current distribution of EITC benefits.

The EITC may have some unintended effects on the willingness of eligible families to work: while families with very low incomes may be induced to work more, those with somewhat higher incomes may choose to work less. For recipients with earnings below \$5,000, the EITC effectively raises wage rates by 11 percent. Because this increases the amount of income forgone by not working, it may cause some recipients to work more hours. On the other hand, recipients with incomes above \$6,500 may choose to work less, because additional earnings cause their EITC payments to fall. An eligible family with earnings of \$8,000, for example, has its EITC payment reduced by \$1.10 when its earnings rise by \$9. Because it will net only \$7.90 out of the \$9, the family may elect not to work the extra hours. Moreover, other taxes magnify this work disincentive. 33/

Use of the EITC to aid working families with children promotes three goals. First, it helps poor children by providing greater resources to their families. Second, because married couples can qualify for the credit, there is no incentive for families to split up in order to be categorically eligible for the credit. 34/ Finally, poor families with earnings below \$5,000 may have an increased incentive to work, since the EITC raises their earnings by as much as 11 percent. 35/ Because aid is given only to low-income families who work, the benefits are targeted on families trying to help themselves.

---

32. The precise credit also depends on adjusted gross income (AGI). If AGI is less than \$6,500, the credit is 11 percent of earnings if earnings are less than \$5,000; \$550 if earnings are between \$5,000 and \$6,500; and \$550 less 12 2/9 percent of earnings if earnings are between \$6,500 and \$11,000. If AGI is greater than \$6,500 and less than \$11,000, the credit is either that described in the preceding sentence, or determined by similar calculations replacing earnings with AGI, whichever is less. Finally, if AGI exceeds \$11,000, no credit is available.

33. For example, a married couple with two children and \$8,000 in earnings is subject to an 11 percent income tax rate and a 7 percent payroll tax rate in addition to the 12.2 percent EITC reduction--a total tax rate of over 30 percent. If the family is also getting food stamps, it will face effectively another 24.6 percent tax as food stamps are cut when the family's cash income rises.

34. Incentives to separate may exist for some families, however. See the discussion in this section.

35. Again, however, this may not always be the case. See footnote 33 above.

TABLE III-7. ESTIMATED DISTRIBUTION OF EARNED INCOME TAX CREDITS BY POVERTY STATUS AND NUMBER OF CHILDREN, CALENDAR YEAR 1983

Family Characteristics	Number of EITC Recipients (In millions of families)	Average Amount of EITC (In dollars per year)	Cost of EITC (In billions of dollars)
All Families	5.7	260	1.5
Income a/			
Less than 100 percent of poverty line	3.2	270	0.9
Between 100 percent and 150 percent of poverty line	1.4	260	0.4
Greater than 150 percent of poverty line	1.2	250	0.3
Number of Children Under 18			
0 b/	0.7	250	0.2
1	2.2	260	0.6
2	1.6	260	0.4
3	0.8	260	0.2
4 or more	0.5	270	0.1

SOURCE: Congressional Budget Office simulations using 1983 incomes and 1986 tax law measured in 1983 dollars; based on the March 1984 Current Population Survey.

a. Income in relation to the Bureau of the Census poverty thresholds in 1983.

b. These families contain qualifying children age 18 and older.

The EITC can be criticized on various grounds, however. First, as noted above, the credit may be a significant work disincentive for families with earnings above $6,500. Second, because it rises with earnings up to the current maximum of $550, the credit provides less assistance to the poorest families than to families with earnings near $5,000. Third, the credit is no greater for large families than for small ones; the presence of one child qualifies a family for the credit, and additional children do not affect its value. Fourth, the credit is given only to those who file tax returns. 36/ Families whose incomes are too low to generate tax liability do not have to file returns, and therefore could well not benefit from the credit. Finally, unless families arrange with employers to reduce income tax withholding or, for those for whom little or nothing is withheld, employers are willing to "pay" the EITC throughout the year by increasing paychecks, 37/ the credit comes as a single payment when annual tax returns are filed. For families that need resources to cover week-to-week expenses, such lump sum payments may be less helpful.

The EITC could be modified in four ways. First, it could be fixed in real value by indexing the turning points--the income levels at which the credit becomes constant, starts to decline, and disappears. A second approach would be less permanent, making one-time changes in the turning points so that more--or fewer--families would be eligible for the credit. Alternatively, the percentage of earnings allowed as a credit could be changed to increase the value of the credit to current recipients only. 38/ Finally, either the turning points or the percentage could vary with the number of children in the tax filing units in order to give greater assistance to larger families. Examples of these possibilities are discussed in greater detail below.

Return the EITC to its 1979 Real Value and Index. This option would increase the credit so that families with the same earnings--corrected for inflation--as they had in 1979 would get the same credit--again corrected for inflation--as they received in the earlier year. The earnings levels at

---

36. It is not known what percentage of eligible families receive the credit.

37. Current law allows employers to include advance EITC payments--equal to the estimated value of the EITC--in workers' paychecks. In general, however, employers have not shown a great willingness to do so, and workers may have an understandable reluctance to insist on getting the payments through their employers. Only about 0.1 percent of the EITC recipients received advance EITC payments in the 1982 tax year.

38. If this were done, however, either the phase-out rate would also have to be raised, or the income level at which the credit falls to zero would have to be greater.

which the credit becomes constant and turns down would be indexed to the CPI. In 1986, this would require that the EITC be set at 10 percent of the first $8,180 of earnings; at a constant $818 for earnings between $8,180 and $9,820; and gradually phased out for earnings (or AGI) between $9,820 and $16,360. For families with earnings below $5,500, the credit would decline--by as much as 9 percent--since the 1985 increase in the credit's percentage from 10 percent to 11 percent would be rescinded. Families with earnings between $5,500 and $11,000 would get larger credits than under current law, by as much as $674; the largest increases would go to families with the highest incomes. Eligibility for the credit would be extended to families with earnings between $11,000 and $16,360, with the amount of the credit falling from $670 to zero as earnings rise. The cost of the EITC for 1986--revenue reduction plus outlay increase--would be about $2.6 billion greater than under current law. Because this provision would be indexed and current law is not, the additional cost would rise over time.

This option would prevent the EITC losing value over time as a result of inflation, and would therefore provide a constant incentive for low-income families to hold jobs. It would also make the EITC consistent with other tax provisions in terms of indexing. 39/ On the other hand, it would not give special aid to large families, since credits would not vary with the number of children. Further, it would significantly expand the population eligible for the EITC, improving work incentives for families with incomes between $5,000 and $8,180 but extending work disincentives to families with incomes up to $16,360.

Increase the Percentage of Earnings Allowed as a Credit. This option would increase the percentage of earnings allowed as a credit, above the current 11 percent, for those with incomes below $5,000. Families with incomes between $6,500 and $11,000--the range in which the EITC is phased out--would have their credits reduced at a faster rate than currently in order to hold constant the income ceiling on eligibility.

Families currently eligible for the EITC could be given greater assistance if the EITC was increased to a greater percentage of earnings. For families with earnings below $5,000, this would provide more incentive to work, since any increase in the EITC would raise their take-home wages net of taxes. In addition, it would focus additional aid on those families most willing to help themselves and make it more likely that they could become self-sufficient.

---

39. The personal exemption, the zero bracket amount, and the width of the rate brackets are now indexed.

On the other hand, for families with higher incomes--between $6,500 and $11,000--this option would increase work disincentives, since any addition to income would be partially offset by larger reductions in their EITC. Further, it would not address the problem of wage growth moving families across the turning points over time, thus reducing or eliminating the real value of the credit. Finally, such changes would not provide any additional assistance to larger families to help meet their greater needs.

For each percentage-point increase in the fraction of earnings allowed as a credit, the 3.2 million poor families getting the EITC would, on average, receive an additional $28 annually--about a 9 percent increase. No tax filing units not now eligible for the EITC would be made eligible because of this proposal, however. The additional budgetary cost of the credit for 1986 would be about $150 million for each percentage point the EITC was raised.

Raise the Percentage of Earnings Allowed as a Credit and Increase the Turning Points. This option would raise the basic EITC from 11 percent to 16 percent of the first $5,000 in earnings; hold the credit constant at $800 for earnings between $5,000 and $11,000; and reduce the amount of the credit by 16 cents of each dollar of earnings above $11,000 until no credit was allowed when earnings equaled or exceeded $16,000. 40/ Thus, both the percentage of earnings allowed as a credit and the income eligibility limits would be raised. This option would raise the value of the EITC by 45 percent for families with earnings below $6,500 and by as much as $800 for families with earnings between $6,500 and $11,000, 41/ and make families with earnings between $11,000 and $16,000 eligible for the credit. It would raise the budgetary cost of the EITC for 1986 by about $3.4 billion.

This option would increase work incentives for families with earnings below $5,000 by raising net wages, and would reduce the work disincentive for families with incomes between $6,500 and $11,000. It would approximately restore the value of the EITC that has been lost as a result of inflation since 1979, and thus improve the prospects of self-sufficiency for working families. On the other hand, because the amount of the credit would fall as income grows, the EITC would become a disincentive to work for families with incomes between $11,000 and $16,000. Further, this would not permanently maintain the real value of the EITC.

---

40. This option was introduced as part of H.R. 4920.

41. The increase would range from $250 to $800 for these families, depending on their current credit. The largest increases would go to those with the largest earnings.

Use Poverty Guidelines to Define Earnings Levels That Receive Maximum Credits. This option would set the credit at 10 percent of earnings up to the relevant poverty guideline for the tax filing unit, and phase out the credit at a 20 percent rate for earnings between the poverty guideline and 150 percent of the poverty guideline. 42/ It would reduce the EITC for about 2.5 million families--by about $30, on average--in most cases affecting families with earnings below $5,500. About 3 million current recipients would get increased credits; over 40 percent of them would have incomes below poverty. An additional 3 million families would become eligible for the EITC and would get credits averaging $550; more than 60 percent of them would have incomes above poverty but below 1.5 times poverty, and three-fourths of them would have at least two children. The additional budgetary cost of this alternative for 1986 would be about $2.9 billion. Because the EITC would be indexed while it is not under current law, additional EITC costs would grow over time.

This option would end the erosion in the real value of the EITC, because poverty guidelines are indexed for inflation. Further, because the guidelines would increase with family size, larger families would receive more from the EITC than under current law. For these reasons, the option would increase work incentives for many poor families. Like the other options, however, it would continue to benefit only those who file tax returns and would generally come in a lump sum once a year. Further, families with incomes between 1 and 1.5 times the poverty line might be discouraged from working more, since their EITC would fall by 20 cents for each additional dollar earned.

Comparison of EITC Options. The options vary widely, both in terms of budgetary costs and in terms of how many families would be affected and who they would be (see Table III-8). Raising the percentage of earnings allowed as a credit would assist only those people now eligible for the EITC. Depending on the size of the increase, the impact might or might not be significant, but costs would be kept down by not expanding eligibility. Raising the turning points would increase the number of eligible families and give greater benefits to more than half of all current recipients. 43/

---

42. The poverty guidelines used here for 1986 are the 1985 Department of Health and Human Services poverty measure for program eligibility determinations, inflated by the projected change in prices between the third quarters of 1984 and 1985.

43. If the credit's percentage was not changed, units with earnings below $5,000 would not get larger credits.

TABLE III-8. COMPARISON OF EARNED INCOME TAX CREDIT OPTIONS

Option a/	Millions of Filing Units Affected: With Larger Credit	With Smaller Credit	New Recipients	Additional Budgetary Costs (In billions of dollars) b/
Restore Real Value	3.1	2.4	3.9	2.6
Raise Credit by One Percentage Point c/	5.7	0	0	0.2 c/
Raise Percentage and Turning Points	5.7	0	3.7	3.4
Base Turning Points on Poverty Guidelines	3.0	2.5	3.0	2.9

SOURCE: Congressional Budget Office simulations based on the March 1984 Current Population Survey.

a. See text for complete descriptions of options.

b. These cost estimates reflect Congressional Budget Office simulations based on 1986 tax law measured in 1983 dollars and 1983 income levels. The resulting cost estimates were inflated to reflect projected 1986 levels.

c. The percentage could be increased by any amount; this example assumes one percentage point. Larger changes would raise costs proportionately more.

Restoring the EITC to its 1979 real value, for example, would give credits to families that would have been eligible then, but whose income growth in dollars has pushed them out of the program; nearly 4 million additional families would be able to claim the EITC, accounting for about half of the $2.6 billion additional cost of this option for 1986. The other options would combine these two approaches.

OTHER ALTERNATIVES

A commonly proposed way of providing cash transfers to families with children would be through a national children's allowance, paid to parents of all children. The United States is the only industrialized country that does not provide some form of children's allowance; more than 60 countries offer such payments. Benefits in those countries are generally paid monthly through check or bank deposit, although Sweden and the United Kingdom use vouchers or cash at social security offices.

In principle, a children's allowance could be set at any level; could vary by age and number of children; could be operated as a direct spending program or through the federal individual income tax system; and might or might not be subject to income taxation. In addition, part of the cost of allowances paid to low-income families could be offset by reductions in other assistance payments such as AFDC and food stamps; the larger such reductions were, however, the less would be the benefit of a children's allowance to low-income families receiving other aid.

Funds to pay for a children's allowance could come from a variety of sources. The assertion that society as a whole is responsible for its children and gains from their contributions as adults would call for the use of general revenues, which could be increased by expanding the tax base or by raising tax rates. Under this approach, all taxpayers would share the costs and the net effect would generally be to shift resources from those with higher incomes and fewer children to lower-income and larger families. An alternative would be an earmarked tax. France has a children's allowance that is funded by a tax on employers, for example. 44/ Such a tax could reduce the number of jobs, however, depending on how it was structured.

One specific proposal would fund a children's allowance by eliminating the personal exemption for dependent children in the individual income tax system. 45/ In 1984, this would have financed a taxable payment of about $220 for each of the nation's 62 million children, with no net effect on the federal budget. Because the value of exemptions is a function of the tax

---

44. This is, in part, a result of the history of the children's allowance in France. Allowances originated as employer-provided wage supplements for workers with large families. When the French government assumed responsibility for paying the allowances, it was natural to turn to employers for funding.

45. Taxpayers in 1985 can deduct $1,040 from income for each dependent child in calculating their taxes. The amount of the exemption--like the zero bracket amount and the width of the tax rate brackets--has been indexed for inflation, beginning in 1985.

unit's marginal tax rate, they are generally worth more to high-income units than to low-income units. Replacing the exemptions for dependent children with children's allowances would be desirable, in the view of some observers, because it would shift the means by which the government currently assists families with children from an approach that helps high-income families more than low-income families to one in which benefits would not depend on income.

Critics of this approach contend that it would shift the burden of financing the children's allowance disproportionately to large, high-income families for whom average tax rates would increase more than for other groups. In contrast, taxpayers without children would experience no extra taxes as a result of this change. Critics further argue that personal exemptions are an intrinsic part of the tax structure that excludes from taxation a basic amount of income for all tax units. In addition, substituting credits for exemptions would cause all families with children to experience the same increase in taxes on the same increase in income; this would alter the traditional premise in the income tax that, at most income levels, larger families have a lesser ability to pay extra taxes than do smaller families.

A children's allowance could be administered as a direct spending program or could be incorporated into the personal income tax as a refundable credit. Because less additional administrative machinery would be involved, providing the allowance through the tax system might be less costly. Withholding rates would need to be adjusted to reflect the allowances, as well as any corresponding changes in exemptions, other deductions, and tax rates. Relying on withholding, however, might fail to meet the recurring needs of poor families. In many circumstances families without earnings would not receive payments on a regular basis, and those that do not file tax returns might fail to collect their children's allowances at all.

Proponents assert that providing direct assistance to families with children through an allowance would recognize society's responsibility to share in the costs of rearing children. Society has such a responsibility, they claim, because society shares in the gains when children grow up to become productive workers and contributing citizens. For low-income families, monthly payments could be a significant supplement to income and thus could ease the financial burden of rearing children. In addition, because additional resources would be provided without regard to family composition, a children's allowance might reduce incentives for families to split up in order to qualify for current assistance programs for which married-couple families are often not eligible.

Children's allowances, however, have been criticized on several grounds. First, they would establish the principle that the government should assist directly in paying some of the costs of rearing children and would open the door for a more direct government role. 46/ Second, an allowance could provide an incentive for families to have more children, although the size of the effect probably would be small. Studies of children's allowances in other countries have not found an impact on birth rates, but it is difficult to argue that there would be no effect at all. 47/ Finally, paying children's allowances would require either creating an entirely new administrative apparatus with significant costs, or further complicating, perhaps substantially, the administration of the tax code. Unless monthly allowances were large--and thus expensive--paying them might not be worth the administrative costs or complications to the tax system.

The specific option considered here would provide $25 per month (in 1986) for each dependent child under age 18. Payments would not be conditioned on family income, would be taxable as regular income, and would be indexed for inflation. Income from the allowance would not be counted in the benefit calculations for AFDC, food stamps, or other income-conditioned programs. 48/ If such an allowance, equivalent in real value, had been in place in 1983, the cost to the federal government, net of taxes

---

46. The tax code currently recognizes such costs, but helps with them only to the extent of not requiring payment of taxes on a portion of the costs. Direct payments would be a different matter.

47. See, for example, Joseph Piccione, *Help for Families on the Front Lines: The Theory and Practice of Family Allowances* (Washington, D.C.: The Free Congress Research and Education Foundation, 1983), p. 11.

48. If the allowance were counted as income in AFDC benefit calculations, most AFDC families would be no better off with the allowance than without, since AFDC benefits would be reduced by up to the amount of the allowance. This reduction in benefits would decrease AFDC costs incurred by both the federal and state governments; as such, it would represent a transfer of resources from the federal government (that would pick up the full cost of the child allowance) to state governments (that would not have to pay their share of AFDC costs). Federal costs of the allowance would, however, be less than if allowance payments were ignored in AFDC benefit calculations.

Similarly, families getting food stamps would have their food stamp allotments reduced by up to 30 percent of the amount of the children's allowance; if the allowance were included as countable income, such families would gain, but by less than the full amount of the allowance. Again, this would reduce the net cost to the government of paying the allowances.

but excluding administrative costs, would have been about $13.6 billion (see Table III-9). 49/ Nearly 33 million families would have received an average payment during that year of about $500; after taxes, the average gain would have been roughly $420 per family. About one-quarter of the net expenditure would have gone to families below the poverty line and another 13 percent to families with incomes between 100 percent and 150 percent of the poverty line.

---

49. The $25 monthly allowance in 1986 would have been equal to a $22 allowance in 1983.

If the the allowance had not been counted as taxable income, the net cost to the government would have been about $16.4 billion in 1983. Taxation of payments would thus recoup about 17 percent of payments; about 90 percent of taxes would come from families with incomes greater than 150 percent of the poverty line.

TABLE III-9. ESTIMATED DISTRIBUTION AND COSTS OF A TAXABLE CHILDREN'S ALLOWANCE OF $22 PER MONTH BY POVERTY STATUS AND NUMBER OF CHILDREN, CALENDAR YEAR 1983

Family Type	Number of Families Receiving Payments (In millions)	Average Annual Gain, Net of Taxes, Per Recipient Family (In dollars)	Total Cost, Net of Taxes (In billions of dollars)
All Families	32.6	420	13.6
By Income Category			
Less Than 100 Percent of Poverty Line	5.9	590	3.5
Between 100 Percent and 150 Percent of Poverty Line	3.5	500	1.8
Greater Than 150 Percent of Poverty Line	23.1	360	8.3
By Number of Children			
1	13.4	220	2.9
2	12.2	430	5.3
3	4.7	660	3.1
4 or more	2.3	1,030	2.3

SOURCE: Congressional Budget Office simulations based on the March 1984 Current Population Survey.

CHAPTER IV

OPTIONS FOR IN-KIND TRANSFER PROGRAMS

Poor families with children receive in-kind transfers in four major areas. Food stamps enable low-income households to purchase food. The National School Lunch and School Breakfast programs offer free and reduced-price meals to children in school. Medicaid finances health care for poor families. The Section 8, public housing, and other programs provide subsidies to low-income families to help them pay their rent or the cost of owning a home. The following options generally involve modifying these existing programs.

FOOD STAMPS

Food stamps are the most universally available form of non-cash federal transfer. With few categorical exceptions, 1/ any household that meets income and asset limitations, as well as work requirements, qualifies for benefits. 2/ The benefit level is based on the cost of the Thrifty Food Plan (TFP), an inexpensive but nutritionally adequate diet, currently valued at

---

1. Most strikers and college students are not eligible for food stamps.

2. There are two income tests: total income must be less than 130 percent of federal poverty guidelines, and income net of deductions must be below 100 percent of those guidelines.

   Allowable deductions include an inflation-indexed standard deduction, set at $95 per month through September 1985; 18 percent of any earned income as a work expense deduction; work- or training-related child care expenses; and shelter expenses in excess of 50 percent of remaining countable income. Total child care and excess shelter cost deductions cannot exceed an inflation-indexed limit, currently $134 per month. If the household has an elderly or disabled member, only child care expenses are subject to the $134 limit; excess shelter costs are deductible in full. In addition, all medical costs of elderly or disabled members that exceed $35 per month can be deducted.

   Liquid assets cannot exceed $1,500 except for families with two or more members, at least one of whom is elderly; the asset limit is $3,000 for the latter group.

$264 per month for a family of four. 3/ This basic allotment is reduced by 30 percent of countable income--that is, income net of the standard deduction and net of specific deductions for work expenses and the costs of child care, housing, and (for households with elderly members) medical care.

Two specific options are considered here. The first would give more food stamps to all families with children by increasing maximum allotments. The second would be targeted toward families that work by raising the child care and excess shelter deductions.

Increase Maximum Food Stamp Allotments

Under this option, the maximum food stamp allotment for families with children would be set at 110 percent of the cost of the TFP. This would increase the amount of assistance going to the nearly 60 percent of all poor families with children that receive food stamps, and would thus reach more poor children than are aided through any other program. It would also address the complaint that, while the TFP is nutritionally adequate, the way in which it is valued yields a dollar amount below its true cost. Poor families may be unable to afford an adequate diet, even with the full TFP value, for several reasons. Because inflation indexation of the TFP lags price changes by 3 to 15 months, and because food stamp benefit calculations are truncated to whole dollar amounts, the TFP value used to determine food stamp allotments has averaged about 6 percent less than the actual TFP cost. 4/ Moreover, food prices may be higher in the areas where some poor families live. While the full amount of the shortfall cannot be determined with accuracy, providing benefits 10 percent above the TFP could be a rough correction. Since food stamps can only be used to purchase food, there should be relatively little concern that the additional assistance might be misused, particularly given recent efforts to combat fraud and abuse.

---

3. The TFP is not the least expensive diet that satisfies minimum daily nutritional requirements, but rather a diet that meets nutritional needs, allows for variety, and includes the basic kinds of foods that Americans eat. At the same time, it is unlikely that many families have food budgets as small as the TFP cost.

4. Over the 1978-1984 period, indexation methods reduced the value of the TFP to an average of 4.9 percent below the actual TFP cost, while rounding and truncation of amounts in benefit calculations resulted in a 1 percent loss.

Because food stamps can only be used to buy food, critics argue that they--like all other forms of in-kind assistance--do not allow recipients their right to decide what to consume. It is conceivable that poor families might receive more satisfaction per dollar of federal expenditure if they were given cash and allowed to spend it as they felt best met their needs. Only the poorest households would prefer cash, however, since others spend more on food than they receive in stamps. Critics of increasing food stamp allotments also maintain that current benefit levels are more than enough to fulfill nutritional needs. Additional food aid should not be necessary, they hold, and might actually discourage budget-conscious shopping. They argue further that because school and child care feeding programs provide free meals to many poor children much of the time, families with children already get food assistance in excess of the TFP. If so, and if the TFP is adequate, such families should not need additional food aid.

For the 4.2 million households with children projected to receive food stamps in 1986, setting maximum food stamp benefits at 110 percent of the TFP would raise allotments by an average of 15 percent. Average benefits would increase by about $25 per month, to roughly $198. Because eligibility is determined primarily by gross income limits, the benefit rise would have little effect on the number of eligible families; it might, however, lead to increased participation. Overall, costs would rise by about $1.2 billion in fiscal year 1986. 5/ There would be no impact on the official poverty gap or rate since food stamps are not counted as income in their determination. If in-kind benefits were included as income at their cash-equivalent value, the increase in food stamp benefits would reduce the poverty gap for families with children by about $0.9 billion, or about 3 percent.

Change Limits on Child Care and Excess Shelter Cost Deductions

This option would replace the limit on deductions for the combination of child care and excess shelter costs in the Food Stamp program--currently $134 per month--with individual limits on each kind of expense. The new limits would be $160 per month for the care of children, and $150 per month for excess shelter costs. 6/

---

5. If the option were expanded to cover all food stamp recipients rather than just those families with children, the cost would be about $1.6 billion.

6. This child care limit would be consistent with that for AFDC.

Almost 90 percent of households affected by the existing limit on deductions contain families with children; in 1981, more than one-fourth of all food stamp households with children were affected. 7/ Increasing the limits would recognize the high shelter and child care costs incurred by these families and therefore their greater need for assistance. The change would also encourage poor families to work by financing part of their child care costs. Finally, relaxing the constraints on shelter cost deductions would mean that families eligible for housing assistance but not receiving it because of funding limits would be helped somewhat more in the Food Stamp program than those getting housing aid.

Some arguments can be raised against the option, however. First, some critics argue that the earned income deduction--18 percent of earnings--already reflects the costs of working and that allowing for the deduction of more child care costs might be excessive. Second, while housing market conditions may force many families to spend large fractions of their income on rent, some families may incur high housing costs by choice. Relaxing limits on excess shelter costs might reward the latter families by increasing their food stamp allotments. While this would be restricted to some degree by the gross income requirements, it could result in additional food aid for this group.

About 1.1 million households with children--and 1.3 million households overall--would receive increases in their food stamp allotments, averaging about $49 annually. Virtually no additional households would become eligible for the program. The total cost of the change would be roughly $62 million in 1986. Because in-kind income is excluded from official poverty measures, there would be no effect on poverty rates or poverty gaps. Even if poverty were assessed using alternative measures that did count in-kind income, there would still be virtually no effect because the change in food stamp benefits would be small.

SCHOOL NUTRITION PROGRAMS

The National School Lunch Program (NSLP) and the School Breakfast Program (SBP) provide cash assistance to participating public and private schools that serve meals to children. Each program has a three-tiered

---

7. At the same time, only 2.6 percent of food stamp households with children used the child care deduction in August 1982; for those households, the average amount of the deduction was $86.

reimbursement system that allows children from households with incomes at or below 130 percent of the poverty line to receive free meals, permits children with incomes between 130 percent and 185 percent of poverty to receive meals at a reduced price, and provides a small subsidy for the meals of children with incomes above 185 percent of poverty. 8/

Evaluations of the NSLP and the SBP have found that both programs effectively increase the amount of food consumed by participants, as the subsidized meals supplement the family's normal food consumption rather than substitute for it. 9/ Furthermore, a number of studies have found that the programs have positive effects on the nutritional intake of the participants. 10/ These programs differ substantially, however, in the number of children each serves, the number of schools participating, and the socioeconomic composition of the children aided.

The NSLP provides subsidized school lunches to children in most schools. During 1983, the average daily participation was 23 million students, at a total program cost of $3.2 billion. In that year, approximately 92 percent of all elementary and secondary school students were in schools that participated in the NSLP. 11/ Roughly half of the meals subsidized by

---

8. For example, the NSLP schools currently receive federal reimbursements of $1.26, 86 cents, and 12 cents, respectively, for each lunch served to children from these three income categories. An additional 12 cents worth of commodity assistance is mandated for all meals, regardless of the family income of the recipient. The corresponding levels of federal reimbursement in the SBP are 66 cents, 36 cents, and 10 cents. There is no commodity assistance in the SBP.

   In the 1984-1985 school year, 130 percent of the poverty line is equivalent to an annual income of $13,260 for a family of four, while 185 percent is equal to $18,870 for a family of the same size.

9. Wellisch, Hanes, Jordan, Maurer, and Vermeersch, *The National Evaluation of School Nutrition Programs: Final Report* (Santa Monica, CA: System Development Corporation, April 1983), vol. 1, pp. 4-5.

10. Ibid., pp. 5-8; and Congressional Budget Office, *Feeding Children: Federal Child Nutrition Policies in the 1980s* (May 1980), pp. 58-74.

11. General Accounting Office, *Participation in the National School Lunch Program* (March 30, 1984), p. 22.

    In 1981, the most recent year for which these data are available, approximately 95 percent of all public schools and 29 percent of all private schools participated. Senate Committee on Agriculture, Nutrition, and Forestry, *Child Nutrition Programs: Description, History, Issues, and Options* (January 1983), p. 3.

the NSLP go to children from low- and moderate-income families; in 1983, 44.6 percent of the children receiving NSLP lunches received free lunches, 6.6 percent received reduced-price lunches, and the remaining 48.8 percent paid for their meals. 12/

The SBP serves far fewer students than does the NSLP. In 1983, the program had an average daily participation of 3.4 million students, with total program costs of $350 million. During that year, the program was estimated to be available in about a third of all schools, and to serve about 23 percent of the participating schools' enrollment. 13/ The SBP also differs from the NSLP in that most of the schools that offer the program are in low-income areas, and the children who participate in the program are predominantly from low- and moderate-income families. In fiscal year 1983, approximately 86 percent of the SBP participants received free breakfasts, while an additional 4 percent paid a reduced price for their meals. 14/

Trends in Participation

The poverty rate in the school-age population rose sharply between 1980 and 1983. This rise resulted in an increase of approximately 18 percent (1.9 million) in the number of children eligible for free meals in the two school nutrition programs. 15/ Notwithstanding this, the number of children served

---

12. Department of Agriculture, Food and Nutrition Service, unpublished data.

13. *Report of the President's Task Force on Food Assistance* (January 1984), p. 135.

14. Ibid., p. 136.

15. During this same period, school enrollment declined by 4.5 percent. General Accounting Office, *Participation in the National School Lunch Program* (1984), p. 22.

    The 18 percent increase was in the number of children between the ages of 5 and 17 years whose household income fell below the income cutoff for free meals. It does not include any measure of the number of these children who are in schools that offer the program. CBO calculations based on March 1984 Current Population Survey.

free meals in the NSLP increased by only 1.3 percent, or 131,000, and the number of children served free meals in the SBP increased by 3.8 percent, or 100,000. 16/

It is not clear why participation has failed to keep pace with the increasing number of poor children. Several factors have been cited as possible causes. First, because of federal policy changes and school closures, fewer schools participated in the nutrition programs after 1980. Consequently, the proportion of all students with access to the programs fell slightly between 1980 and 1983. 17/ Second, student participation has decreased a small amount among those students who attend schools that participate in the programs. Little is known, however, about the socioeconomic composition of the students who no longer participate. Third, increased efforts to verify income in determining eligibility resulted in changes being made in the eligibility forms, requiring more detailed information. It is not known what, if any, effect this latter factor had on participation. Some people suggest that it has reduced the number of children who obtain benefits without actually being eligible, while others believe that it has created a "barrier" effect--preventing eligible families from participating because they find these forms intimidating or difficult. Finally, a series of changes in the income eligibility guidelines between 1980 and 1981 resulted in a net lowering of the income standard for some family sizes in the free category, although it is not known how many families were affected.

---

16. NSLP data from Department of Agriculture, Food and Nutrition Service; SBP data from *Report of the President's Task Force on Food Assistance*, p. 136. The student participation data are extrapolated (by the Food and Nutrition Service) from the number of meals served in each category. It is difficult, therefore, to know whether a change in the estimated participation rate reflects only a change in the number of students participating, or whether it includes some other factor--for example, a change in the frequency of participation, such as some students eating fewer meals in some weeks.

17. The 1980 and 1981 policy changes decreased reimbursement rates; decreased the value of commodities; quadrupled the price for the reduced-price lunch category; increased efforts to verify income in determining eligibility; changed the income eligibility requirement for the free lunch category; and lowered the upper bound for the reduced-price category from 195 to 185 percent of poverty.

    Between fiscal years 1981 and 1983, about 2,500 schools (out of approximately 92,900) dropped out of the NSLP. This, according to one analysis, reflected a number of factors, including: the 1981 provision excluding all private schools with average yearly tuitions of $1,500 or more (accounting for an estimated 500 of the 2,500 schools dropping out); changes in income eligibility requirements and federal reimbursement rates; and changes in the number of schools open nationwide. As a result, an estimated 94.8 percent of all students were in NSLP schools in 1980, compared with 91.5 percent in 1983. General Accounting Office, *Participation in the National School Lunch Program*, pp. 3, 9, and 21-22.

It is not clear that the discrepancy between the large increase in the number of poor children eligible for free meals and the small increase in the number actually served can be explained satisfactorily by any of the above factors. 18/ Additional investigation into the causes of the current participation trends among the poor would help to identify policy options that would be most effective in ensuring full access to the school nutrition programs.

Options for School Nutrition Programs

The options discussed below address ways in which the school nutrition programs could serve larger numbers of poor children--either by increasing the number of children participating in those schools that now offer the programs, or by increasing the number of schools participating in the programs. Three approaches are considered:

- Make the programs mandatory for all schools receiving federal funds;
- Increase reimbursement rates for the School Breakfast Program; and
- Raise the income eligibility guidelines.

Make the NSLP and/or the SBP Mandatory for All Schools. The federal government could require all public schools to participate in one or both of the programs on the grounds that all states receive federal funds for elementary and secondary education. 19/ Alternatively, such participation could be made mandatory for elementary schools alone, since the rates of participation are higher in elementary schools than in secondary schools. This approach would provide most public school children access to the school nutrition programs. It would do so at an additional cost in 1986 of roughly

---

18. Other possible explanations are that some low-income families are unaware of their eligibility for the program, are unwilling to accept the free meals, or perhaps are participating less often. No evidence is available at this time to support any of these explanations.

19. Most schools can choose whether or not they wish to participate in the school nutrition programs. The only exceptions are those private schools whose average yearly tuition is greater than $1,500, which were declared ineligible in 1981.

$200 million for the NSLP and $370 million for the SBP, assuming about 1.7 million and 3.0 million additional participants, respectively. The potential cost of this option, and its possible impact on poor children, are difficult to assess because of a lack of data on the socioeconomic characteristics of schools or of children who do not participate in the programs.

Proponents of this option believe that all children would benefit from having access to the school nutrition programs. They point to evidence that school lunches are more nutritious than lunches provided from other sources, and that the SBP ensures that the children eat breakfast. 20/ They also argue that most nonparticipating schools do not have alternative meal programs (for example, according to USDA data, approximately 76 percent of the non-NSLP schools had no lunch services available to their students in 1980). 21/ Others argue for making only the SBP mandatory, as a means of effectively targeting additional aid toward low-income children.

Opponents of a mandatory NSLP maintain that such action is unnecessary on the grounds that over 90 percent of all school children are in participating schools and that many of the nonparticipating schools are thought to be (as of 1980) relatively affluent. They also argue that the nonparticipating schools could find participation more costly than do schools with larger numbers of poor students. 22/

Some opponents of a mandatory SBP believe that providing breakfast is not a school responsibility. Others contend that, under the current reimbursement structure, it would put unnecessary financial burdens on the schools because costs appear to exceed revenues in many programs. 23/ Still other critics focus on the operational difficulties of implementing a school breakfast program, such as staffing and the rescheduling of buses and classes.

---

20. Wellisch and others, *National Evaluation of School Nutrition Programs*, pp. 10-11.

21. Department of Agriculture, Food and Nutrition Service, *Annual Report of Meal Service in Schools* (1980).

22. Affluent schools might find it more costly to participate in the NSLP, as the subsidies for the paying category are relatively small. On the other hand, affluent school districts are probably better able to afford such costs.

23. General Accounting Office, *Major Factors Inhibit Expansion of the School Breakfast Program* (June 16, 1980), p. iv.

47-363 O - 85 - 3

Increase the Reimbursement Rates for the School Breakfast Program. The federal government could foster school participation in the SBP by increasing the rate at which schools are reimbursed for breakfasts they serve. Reimbursement rates could be raised by any amount, and the cost of the option would vary accordingly. If, for example, reimbursement rates were increased by 6 cents per breakfast, federal outlays would increase by roughly $42 million in 1986. 24/

Proponents of this approach argue that the SBP is effectively targeted to low-income students, but that relatively few schools participate. They believe that schools--especially those in low- and moderate-income areas--find it financially difficult to participate in the SBP because reimbursements are usually not sufficient to cover costs. 25/ These schools would be more likely to participate if the reimbursement rates were increased, thereby providing many more low-income children access to subsidized breakfasts.

Opponents maintain that current reimbursement rates are adequate, and that the additional funding for cases of "severe need" allows schools that face financial difficulties to meet their costs. 26/ They suggest that low participation levels result from other factors--for example, the belief of some school administrators that breakfasts are the responsibility of the parents, and difficulties such as the scheduling of buses and additional food service staff hours.

Raise the Income-Eligibility Guidelines to Encompass More Students. Another approach would be to raise the income-eligibility guidelines in the school nutrition programs to provide more low- and moderate-income

---

24. Under this version of the option, reimbursements would rise by 6 cents from current levels in each category. For example, rates in fiscal year 1986 would increase from 68 cents to 74 cents for the free category.

25. General Accounting Office, *Major Factors Inhibit Expansion of the School Breakfast Program.*

26. Increased proportions (from 44.0 percent in 1980 to 50.5 percent in 1983) of SBP schools qualified as "severe need" schools (*Report of the President's Task Force on Food Assistance*, p. 136). These schools are defined as those having a large proportion (more than 40 percent) of lunches served in the free or reduced-price categories, or whose preparation costs are greater than the federal reimbursement rates. This categorization allows schools to receive roughly 13.5 cents more in reimbursements for the free and reduced-price categories. Senate Committee on Agriculture, Nutrition and Forestry, *Child Nutrition Programs: Description, History, Issues, and Options* (January 1983), pp. 25-26.

children access to subsidized meals, and to broaden the potential base of participants for schools. For example, a limited expansion could be made by increasing the income guideline from 185 percent to 195 percent for the upper bound of the reduced-price category. This would cost an estimated $22 million in 1986 and would serve approximately 120,000 additional students in the reduced-price category, roughly 31,000 of whom would have been in the paying category prior to the change. 27/ There are many possible versions of this option: the lower income guidelines could be raised (for example, to 150 percent of poverty) to allow more children to receive free meals, or both the lower and upper guidelines could be increased (for example, to 150 percent and 200 percent of poverty, respectively). The cost of this approach, and the number of children affected by it, would depend on the size of the change in the income-eligibility guidelines. In general, costs would be higher for expansions in the free meal category than for expansions in the reduced-price category, as both participation and reimbursement levels are much higher in the free category. More low-income children would be reached by expanding the lower category, however.

This general approach would allow schools to receive subsidies for more students and would, depending on the size of the change in the guidelines, give them greater incentive to participate. It would therefore be likely to increase the number of low-income children who had access to the program, and would allow the federal government to target additional benefits to specific groups. On the other hand, it would also provide larger federal subsidies to children whom many consider to be less needy.

HEALTH CARE

All children need a variety of routine preventive health services (for example, physical and dental examinations) and acute care for childhood diseases and accidents. In addition, a small proportion of children require substantial physician and hospital services for major illnesses, particularly during the first year of life.

---

27. These costs would be primarily incurred in the NSLP, as very few students participate in the reduced-price and paying categories in the SBP. Some additional costs would also be incurred in the Child Care Food Program, which uses the same eligibility guidelines as the School Lunch and Breakfast programs. The Supplemental Food Program for Women, Infants and Children (WIC) uses the same upper income-eligibility guideline, but no additional costs would be incurred as it is an appropriated program.

A variety of private and public arrangements help poor families with children satisfy these needs. Children of some working poor are covered under the employment-related health insurance plans of their parents. Most part-time employees and many low-wage employees, however, are not covered under employer health insurance. Workers who change jobs or incur a spell of unemployment often go uncovered or lack coverage for preexisting medical conditions. Moreover, private insurance plans generally do not cover the routine preventive services needed by all children. Historically, some additional care has been provided for the poor by hospitals and physicians as charity or "bad debt" care. Though its magnitude has always been uncertain, there is some concern that willingness to provide such free services is sharply declining.

Children in poor families have two principal sources of public financing for their health care: Medicaid and federally supported primary care centers. Under Medicaid, the federal government shares with states the costs of financing a wide range of health care benefits for all children in families receiving AFDC, and, at state option, for other children in families with incomes above AFDC levels who are deemed medically needy. In general, Medicaid covers a much broader range of services than private insurance with, at most, nominal amounts of cost sharing by patients. The states are required to provide preventive screenings and follow-up treatment to eligible children through Medicaid's early and periodic screening, diagnosis, and treatment benefit.

Over 9 million children--both poor and nonpoor--received Medicaid benefits in 1983 at a total cost of about $3.8 billion, about 55 percent of which was spent by the federal government, with the balance financed by the states. Only 45 percent of poor children were covered by Medicaid in 1982, however, because of restrictions on the categories of families that are eligible and because state AFDC payment standards are set well below poverty income levels. The Deficit Reduction Act of 1984 (Public Law 98-369) required states to phase in Medicaid eligibility for all children under five years of age who live in families with incomes below state AFDC eligibility standards.

Federally supported primary care centers--including community health centers and migrant health centers--serve poor families residing in medically underserved areas. Payment for care is based on family income, with families at or below the federal poverty level being eligible for free care. Although such centers do not provide services for major illnesses that require hospitalization--and therefore are not a complete substitute for Medicaid or adequate private insurance coverage--they serve many low-income families who are ineligible for Medicaid by virtue of family structure or income level. About 5.5 million people will be served by 739 primary care centers at a federal cost of $400 million in 1985. (Federal subsidies, which provide just under half the centers' revenues, are supplemented by revenues from nonpoor patients, private insurance, Medicaid, and state and local government subsidies.) Among those served are perhaps 300,000 to 400,000 poor children who are ineligible for Medicaid but receive free ambulatory care through such centers.

Strategies for providing children in poverty with greater access to health care services include expanding Medicaid eligibility, increasing the number of federally subsidized primary care centers, and providing school-based health insurance coverage.

Expand Medicaid Eligibility to Include All Children and Pregnant Women in Families With Incomes Under 65 Percent of Poverty

To increase access to health care for low-income children, the Congress could require all states to extend Medicaid coverage to all children and pregnant women in families with incomes below 65 percent of the poverty level. This could be implemented through existing state Medicaid agencies, though participation in the program by this newly eligible population would probably be low because they are not a part of the welfare system. This option could provide medical care for 700,000 children and 100,000 pregnant women. A minimum national eligibility standard would reduce interstate differences in coverage of children and pregnant women with similar family incomes.

Expanding Medicaid eligibility to include all children in families with incomes under 65 percent of the federal poverty level would raise annual federal outlays for the Medicaid program by about $400 million. Also, those states with AFDC standards under the proposed eligibility level would be required to raise their annual outlays by a total of about $300 million. The added state Medicaid costs could have adverse consequences for other beneficiaries of state services, if states chose to meet their share of increased costs by reducing spending elsewhere in Medicaid or in other areas.

Increase the Number of Federally Subsidized Primary Care Centers

The Congress could enhance access to primary health care services for poor and near-poor families by authorizing federal subsidies for new community or migrant health centers. The additional services could lead to improved levels of health among those served. While the incremental federal spending would not wholly accrue to children in poor families, about 60 percent of current program beneficiaries are from families with incomes below the poverty level and another 25 percent have family incomes under twice the poverty level. Because federally subsidized primary health care centers seek Medicaid and private insurance reimbursements from their insured patients and direct payments from their uninsured higher-income patients, the federal subsidies to centers are largely for patients below or near the poverty line. Unlike entitlement programs such as Medicaid, federal primary care subsidies are subject to direct Congressional control through annual appropriations. Under current law, the annual federal subsidy is about $600,000 per center; an expansion of one center per state would cost $30 million.

This option would have some drawbacks, however. Under the current approach to federally subsidized primary care delivery, only projects in medically underserved areas are eligible for support. If the Congress authorized funds for new centers under these guidelines, the benefits would be unevenly distributed, accruing only to families in the service areas of the new centers. Even a comprehensive package of primary care services would fall short of fully insuring children for major illnesses.

Provide School-based Health Insurance Coverage

The Congress could expand health insurance coverage for low-income children by subsidizing private insurance purchased through school districts. 28/ Compared with the options discussed above, this one might help more poor children by using public schools to identify those children in need. Grants could be provided to each district to purchase group health insurance for low-income children who do not have coverage through a parent's policy or under Medicaid. States could be required to match federal grants on the basis of their federal Medicaid assistance percentage.

---

28. The concept of a school-based health insurance program for low-income children was suggested by Allen Feezor of the Blue Cross-Blue Shield Association.

The amount of the grant could be based on the per-capita cost of providing health care through a health maintenance organization (HMO), with an allowance for the increased administrative costs that school districts might incur. In the option examined here, for children in families with incomes under the federal poverty level, the full federal matching rate would apply. Half this amount would be provided for children with family incomes between poverty and two times the poverty level. School districts could request local health care providers--including insurers, HMOs, and hospitals--to bid for contracts to provide health care to their uninsured school children. (Some school districts already involve themselves in health care coverage by requiring certain health care coverage for participation in competitive sports.) Implementing a school-based health insurance program for uninsured children in this way would increase federal outlays by $1.2 billion in fiscal year 1986.

Most school-age children could be reached through this option, thus increasing participation by the target population. It would make health insurance available to an estimated 3.2 million uncovered children under the poverty threshold and as many as 2.8 million uncovered children between poverty and two times the poverty level. Under such a program, schools could become the initial contact with the medical care system for children, who could then be referred to the health care provider to receive any necessary care. This option would probably increase the likelihood that medical problems identified by school health officials would receive treatment.

Some people object that schools already have more responsibilities, in addition to education, than they can effectively meet. Staffs in most districts are not qualified to carry out the insurance-related duties that would be required. Even though the grants could defray additional administrative costs, the option could be difficult to implement in districts where there are few eligible children or few health care providers, and children in private schools would be difficult to reach.

HOUSING ASSISTANCE

The Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA) provide housing subsidies to low-income families, intended to upgrade their housing quality and to reduce their housing costs. 29/ Most programs aid renters, typically reducing tenants' rent payments to a fixed percentage--currently 30 percent--of their incomes, after certain deductions. Rental assistance is provided through two basic approaches: subsidies tied to projects specifically constructed for low-income households, and subsidies that permit renters to choose standard housing units in the existing private housing stock. Outlays for project-based subsidies, mostly for the public housing and the Section 8 new construction and substantial rehabilitation programs, totaled $6.8 billion in 1984. Outlays for household-based subsidies, through the Section 8 existing-housing program, amounted to $2.8 billion in 1984.

Housing assistance programs are not entitlement programs, nor are they specifically aimed at families with children. Under current law, a household is generally eligible for rental assistance if its income is 50 percent or less of the median in its area, with adjustments for family size. 30/ In 1983, 11.5 million renter households were eligible to receive assistance, including 5.1 million families with children (see Table IV-1). As of that year, an estimated 3.5 million households received rental subsidies through the major HUD programs, representing about 30 percent of all renters in the target income group. 31/ About 28 percent of eligible families with children were served, compared with 48 percent of all elderly households, the other principal eligible group. 32/ As of 1983, 3.7 million poor renters with children remained unserved.

The three options considered below would expand coverage for poor families with children. The first would make housing assistance an

---

29. In addition to providing aid through direct subsidies, the federal government addresses housing needs through various indirect mechanisms, including community development programs, mortgage credit and insurance activities, and income tax provisions. These approaches are not considered here. For a more detailed description of the various programs see Congressional Budget Office, *Federal Housing Assistance: Alternative Approaches* (May 1982).

30. A limited proportion of funds may be made available for families with incomes between 50 percent and 80 percent of the area median.

31. In addition, the FmHA provided rental assistance to 220,000 households. Since no demographic data are available for the latter, they are excluded from this analysis.

32. Assistance to nonelderly households without children is provided subject to stringent limitations.

TABLE IV-1. HOUSEHOLDS ELIGIBLE FOR AND RECEIVING RENTAL ASSISTANCE, 1983 (In thousands)

	With Children	Without Children		Total
		Elderly	Nonelderly	
Total Income-Eligible Households	8,030	8,440	4,020	20,490
Renters	5,120	3,280	3,090	11,490
Owners	2,910	5,160	930	9,000
Total Assisted Households a/	1,450	1,560	490	3,500
Assisted as Percent of Eligible Renters in Group a/	28	48	16	30

SOURCE: Congressional Budget Office tabulations of the 1983 Annual Housing Survey and unpublished data from the Department of Housing and Urban Development.

a. The number of assisted households includes a small number of households with incomes above 50 percent of their area medians. Therefore, the proportions of income-eligible households receiving assistance are somewhat overstated. In addition, the FmHA provided rental assistance to 220,000 households. Since no demographic data are available for the latter, they are excluded from this analysis.

entitlement program for this subgroup. The second would reduce subsidies for current beneficiaries to finance aid for a larger number of families with children. The third would replace housing assistance for some current beneficiaries with a smaller general income supplement that would be available to all poor families with children. All these options address the nonentitlement character of housing assistance. All would require more substantial changes in current programs than would options presented elsewhere in this paper affecting other programs.

Make Housing Assistance an Entitlement for Poor Families with Children

Housing assistance could be made available to all families with children at the lowest cost by expanding household-based aid. 33/ The cost of an entitlement program for poor families with children would depend on the participation rate, which is difficult to predict. Experience with the Experimental Housing Allowance Program (EHAP) has shown that participation rates in programs of this sort depend on several factors, including the size of the subsidy, the program's housing standards, and the effort made to inform eligible households that aid is available. 34/ The EHAP experience suggests that, once fully phased in, an entitlement program for poor families with children would aid about 50 percent of all such households. Assuming this eventual total participation rate, an entitlement program for low-income families with children would add approximately $3.5 billion per year in 1985 dollars to current outlays. Given the uncertainty associated with actual participation rates, however, the ultimate cost might be higher or lower than this amount.

This option would reduce the uneven treatment of households in similar economic situations and would provide the opportunity for all poor families with children to be adequately housed without having to spend more than 30 percent of their incomes in rent. In addition, it would eliminate the need for public housing authorities (PHAs) to ration aid among many applicants.

On the other hand, relying on the existing private housing stock to provide standard housing might present problems, particularly for large households that, in tight housing markets, appear to face a shortage of units of adequate size within HUD's rent guidelines. 35/ Furthermore, experience with EHAP has shown that participation rates in entitlement programs of this sort fall far short of 100 percent in both tight and loose housing

---

33. In recent years, the new-construction approach has been virtually abandoned in favor of the less costly Section 8 existing-housing program and the recently introduced housing vouchers. The major difference between the two latter program types is the length of the federal commitment--15 years for Section 8 existing housing and 5 years for vouchers.

34. For estimates of participation rates by various groups of households, see Ira S. Lowry, ed., *Experimenting with Housing Allowances*, The Rand Corporation (Cambridge, Mass.: Oelgeschlager, Gunn and Hain, 1983), Chapter 4.

35. Under the new voucher program, a household is allowed to occupy a unit with rent above the HUD payment standard, provided that the household pays the difference.

markets. Therefore, in practice, disparities among households with similar incomes would be likely to continue.

Reduce Benefits for Current Recipients and Expand Coverage for Poor Families with Children

Coverage of poor families with children could be expanded without increasing current federal outlays, by reducing benefits for all current participants through an increase in tenant rent payments. Prior to 1981, assisted tenants contributed 25 percent of adjusted income toward housing costs. In 1981 the law was changed, raising rent payments to 30 percent of income, with the increase to be fully phased in by 1986.

If tenant rent contributions were again increased to, say, 35 percent of income, a total of $1.4 billion in annual savings would be achieved in 1990 once the change was fully phased in. If those funds were redistributed to aid additional eligible families with children through Section 8 existing-housing assistance or vouchers, an additional 368,000 households could be assisted. This strategy would represent a move toward equalizing the distribution of housing assistance without affecting the federal budget. Many eligible applicants would remain unserved, however, and the burden of housing costs on poor families now being subsidized would increase.

Reallocate Certain Housing Assistance Toward Cash Grants

Another way to equalize the treatment of low-income families with children, while not raising federal outlays, would be to transform some housing assistance into a smaller--but more widely available--general income subsidy. In the short run, the most accessible pool of money available for redistribution would consist of annual outlays for household-based subsidies from the Section 8 existing-housing and voucher programs.[36] While these sorts of subsidies are tied to housing consumption because of the requirement that assisted households occupy standard housing, they are already much closer to general income transfers than are project-based subsidies. This is particularly the case if a household does not move to a different dwelling upon receiving housing subsidies. Also, the majority of

---

[36] The amount of available funds would be fairly modest in the short run because of the funding mechanisms used in assisted housing programs. In the programs that support new construction or rehabilitation of assisted housing units, federal commitments were made to the project owners for periods ranging from 15 to 40 years. These commitments

(continued)

households assisted under these programs are families with children--the same target group as for the more widely available income supplement.

In 1985, the estimated expenditures for all household-based subsidies under the Section 8 existing-housing and voucher programs will amount to $2 billion, providing assistance to about 803,000 households. 37/ The average subsidy to a family with children receiving assistance for the entire year will amount to almost $3,300. The amount of cash assistance that could be provided per family with children if this $2 billion were transformed into an entitlement income supplement would depend on the definition of the eligible group. If aid were limited to the 4.3 million renter families with incomes below 50 percent of the area median who do not live in projects that would continue to be subsidized, each family would receive about $470 of additional income per year in 1985 dollars. If income-eligible homeowners with children were included in the target group, the annual average income supplement would decrease to $280 per household.

Implementation of this strategy would eventually eliminate uneven treatment of poor renters with children, but only in the very long run, once all federal commitments to project owners had terminated. This option would, however, increase housing costs substantially for those households that no longer would receive housing aid. Currently assisted households with

---

36. take different forms in various programs. Under production programs in which projects are privately owned, the government guarantees rent subsidies for tenants or subsidizes project mortgages. None of these funds would be available for redistribution in the short run, unless the government offered monetary incentives to induce project owners to convert to unsubsidized status before the federal commitment runs out. Under the public housing program, by contrast, projects are owned and operated by local public housing authorities (PHAs), with the federal government paying the full capital costs and, since the 1960s, a share of the operating costs as well. Payments for the capital costs represent a long-term federal obligation and hence would not be available for redistribution. Payments for operating subsidies, on the other hand, are provided on an annual basis and could presumably be terminated. Without these subsidies, however, PHAs would have to increase rents charged to their tenants, making this housing stock unaffordable for the poor. This might create a shortage of housing available to the poor, particularly in some large cities, where public housing may represent up to 15 percent of the total rental housing stock and a much larger share of the units occupied by low-income families.

37. This figure excludes over $1 billion of projected outlays for various project-based subsidies under the Section 8 existing-housing and moderate-rehabilitation programs. In these cases, contractual obligations to project owners would prevent the release of funds for periods of up to 15 years. These subsidies include payments to households living in older projects that receive assistance under HUD's largely inactive mortgage-subsidy programs.

children would lose about 90 percent of their aid, and those households without children--principally the elderly--would lose all assistance. Many of these households may have come to rely on their housing subsidies and may have incorporated them in their housing consumption decisions. Thus, some households might be forced to move from their current residences upon losing housing assistance payments. In addition, based on experience with the EHAP program, in the absence of requirements to occupy standard housing, a general income transfer would not be likely to contribute substantially to the goal of reducing the incidence of substandard housing, particularly in view of the limited increase in each household's income.

CHAPTER V

OPTIONS TO DEAL WITH THE EFFECTS OF POVERTY

While the poor can often be helped by policies that increase their resources, some of their difficulties may be better dealt with by programs that seek to prevent poverty or ameliorate its effects. Programs that identify nutrition and health problems, especially for children and families most at risk, can help prevent the permanent effects of undernutrition and can mitigate problems associated with hunger. Similarly, agencies that deal with child abuse and help place children with adoptive parents or in foster homes can reduce the incidence of child abuse and help families prevent its recurrence. Education programs can offer remediation or other special services designed to meet the special needs of some poor children. Finally, adolescents may require special services to prevent teenage pregnancy, or to help adolescent mothers become self-sufficient. This chapter discusses options for dealing with each of these services.

NUTRITION AND HEALTH SERVICES--THE SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

The Supplemental Food Program for Women, Infants, and Children (WIC) provides food assistance and nutritional screening to low-income pregnant and postpartum women and their infants, as well as to low-income children up to age five. Participants in the program must have incomes below 185 percent of poverty, and must be nutritionally at risk. 1/ Under the Child Nutrition Act of 1966, nutritional risk is defined as detectable abnormal nutritional conditions; documented nutritionally related medical conditions; health-impairing dietary deficiencies; or conditions that predispose people to inadequate nutrition or nutritionally related medical problems. 2/

---

1. Although states are free to set their upper income-eligibility limits between 100 percent and 185 percent of poverty, the majority have used 185 percent of poverty as the cutoff. Senate Committee on Agriculture, Nutrition and Forestry, *Child Nutrition Programs: Description, History, Issues, and Options* (January 1983), p. 62.

2. Ibid., p. 61.

Evaluations of the WIC program have found that it has had a positive effect on reducing low birthweight among infants--a condition that is linked to poor pregnancy outcomes and increased probability of infant mortality. WIC has been especially effective for teenage and minority mothers, as well as for others who are particularly at risk. 3/ Although studies have also found that the program has had positive effects on other problems, such as the incidence of anemia, there is some debate over the conclusiveness of these other findings. 4/

WIC is a grant program, and does not serve all who are eligible. In 1984, $1.36 billion was appropriated for WIC, permitting it to serve approximately 3 million women, infants, and children. It is difficult to estimate what proportion of the eligible population this represents, however, primarily because it is not clear how large the eligible population is. While one can estimate the number of women, infants, and children who are income eligible for the program (assuming the maximum income level), it is not easy to ascertain how many also meet the nutritional risk requirement. An estimated 30 percent of the income-eligible women, 45 percent of the income-eligible infants, and 20 percent of the income-eligible children were served in 1983. 5/ Some argue that most low-income women and children have either some sort of nutritional deficiency or an inadequate diet that could lead to such a deficiency, and therefore that most of those who are income eligible would also qualify as being nutritionally at risk.

If the Congress chose to expand WIC coverage to a greater proportion of the eligible population, a number of options would be available. It could:

- o Increase appropriation levels to provide financial assistance to states for the establishment or expansion of WIC programs in high-priority areas that are currently underserved; or

---

3. General Accounting Office, *WIC Evaluations Provide Some Favorable but no Conclusive Evidence on the Effects Expected for the Special Supplemental Program for Women, Infants, and Children* (January 30, 1984), pp. ii, iv, and v.

4. Ibid., p. v. The Department of Agriculture is currently engaged in a major WIC evaluation, and the results should be released shortly.

5. CBO calculations, based on March 1984 Current Population Survey. Note that these estimates are based on the number of women, infants, and children whose household incomes were below 185 percent of poverty. Individual state variations in income eligibility guidelines are not, therefore, taken into account.

- Convert WIC to an entitlement under which states would be reimbursed for each client served.

Increase Appropriation Levels to Provide Funding for the Establishment or Expansion of WIC Programs

The WIC program serves as a mechanism for identifying low-income women and children who are at medical and nutritional risk, and can link these women and children to the larger health system through referrals. 6/ Current appropriation levels mean, however, that states cannot serve the entire eligible population.

One means of expanding coverage, without creating an entitlement, would be to increase funding by some fixed amount. For example, if the Congress increased appropriation levels by $500 million, the program could serve approximately 1 million additional people. 7/ This would increase coverage--by either opening new WIC programs or expanding current efforts--without changing the current administrative structure.

This kind of option would expand coverage with a relatively small increase in total funding, yet leave future expenditures under the control of the appropriation process. Proponents maintain that WIC is a cost-effective way of improving pregnancy outcomes and maternal and child health. They also argue that WIC's health-screening services allow for the early detection of potentially disabling and costly illnesses and health problems. Finally, proponents point out that the provision of additional prenatal care would reduce future health care costs, as inadequate prenatal care and nutrition are linked with increased costs of intensive care for newborns, mental retardation, and other disabling health problems. 8/ On the other hand, people who question WIC's effectiveness also question the appropriateness of expanding the program. Others argue that the program already serves those who are most in need, and that expansion is unnecessary.

---

6. See Marc Benedick, Jr., Toby H. Campbell, D. Lee Bawden, and Melvin Jones, *Toward Efficiency and Effectiveness in the WIC Delivery System* (Washington, D. C.: Urban Institute, April 1976).

7. Funding for the operation of 200 new average-size WIC programs (approximately 300 clients each) would cost, for example, $31 million in 1986.

8. Institute of Medicine, *Preventing Low Birthweight* (Washington, D.C.: National Academy Press, 1985), pp. 24-33.

Convert WIC to an Entitlement Program

WIC coverage could be extended to all eligible women, infants, and children if it were converted to an entitlement program under which each state would be reimbursed for as many eligible clients as it serves. Under this alternative, an estimated 6.5 million to 7.5 million people could be eligible for WIC on the basis of income, costing up to $3.8 billion dollars in 1985 if every eligible woman, infant, and child participated. It is, however, quite unlikely that all income-eligible people would also meet the nutritional risk requirement, or that they would all participate if found eligible.

Proponents of this option argue that it would remedy a major inequity in the current health system by extending WIC coverage to all women and children who are at medical and nutritional risk. Opponents argue against the creation of any new entitlement program at this time--mainly because eligibility would be based primarily on income level and, hence, costs could be difficult to control. They also suggest that the evidence of WIC's effectiveness is not conclusive, and that major expansions should not take place without such evidence.

CHILD WELFARE SERVICES

Child welfare services differ from the other programs discussed in this chapter in two ways. First, these programs seek to help children of all income levels who are neglected or abused by their parents, rather than focusing only on the needs of poor children, although a disproportionate number of these children come from low-income families. Second, the level of state intervention is much greater than in the other areas discussed--the child is frequently in the partial or complete custody of the state, and parental rights are usually at risk of being terminated.

Child welfare service programs include identification and protection services for abused and neglected children, foster care for those children who must be removed from their parents' custody, and adoption assistance to help them obtain permanent homes. An estimated 850,000 cases of child abuse and neglect were reported in 1981, and an estimated 273,000 children were in foster care. 9/

---

9. Martha R. Burt and Karen J. Pittman, *Helping the Helpless: The Impact of Changes in Support Programs During the Reagan Administration*, Discussion paper by the Urban Institute's Changing Domestic Priorities Project (Washington, D.C.: Urban Institute, October 1984), p. 13.

Funding for child welfare programs comes from state (and local) sources as well as federal social service and child welfare funds. One study estimated that 52 percent of all funds spent on child welfare services in fiscal year 1982 came from state and local sources, an additional 30 percent from the federally funded Social Services Block Grant program (SSBG, or Title XX of the Social Security Act), 9 percent from Title IV-E of the Social Security Act, 5 percent from Title IV-B of the Social Security Act, and the remainder from other federal sources. 10/ Comprehensive national data on the number of children and families receiving various child welfare services, and the costs of those services, are inadequate. The collection of such data would greatly improve efforts to evaluate current services and programs, and to assess policy options in this area.

Although child welfare services are for children of all income levels, children from low-income families are overrepresented in the child welfare system. Low-income families generally do not have the assets to deal with the various crises that commonly confront all types of families, and can find it difficult to afford the necessary services. They are, therefore, obliged to turn to public programs for aid. Consequently, the incidence of reported

---

10. Jeffrey J. Koshel and Madeleine H. Kimmich, *Summary Report on the Implementation of P.L. 96-272* (Washington, D.C.: Urban Institute, September 1983), p. 24.

The Social Services Block Grant (SSBG) is the primary source of federal funding for social services. Within broad federal guidelines, states are allowed to choose the services they wish to fund, design their own programs, and establish their own eligibility criteria. Services funded through the SSBG include child welfare services, child care, adult protective services, homemaker services, and others. The estimated fiscal year 1985 outlays are $2.8 billion.

Title IV-E of the Social Security Act is an entitlement program that provides matching funds to the states for foster care maintenance costs. These funds, however, are restricted to children who were eligible for AFDC when they entered the foster care system, and who met other eligibility requirements as well. Legislation enacted in 1980 required that, by October 1983, there must be "reasonable effort" made to provide all children receiving foster care under Title IV-E with prevention and reunification services, and that the state would not be able to receive funding for children for whom such efforts had not been made. States are not, however, allowed to use Title IV-E funds to pay for these services. The fiscal year 1985 estimated outlays are $527 million, which includes $42 million in prior year claims.

Title IV-B of the Social Security Act gives states matching funds to provide a range of child welfare services. Title IV-B is authorized for 1985 at $266 million, although estimated 1985 outlays are $200 million. Legislation enacted in 1980 (P.L. 96-272) required that none of the Title IV-B funds above the 1979 level of $56.5 million be spent on foster care maintenance costs, employment-related child care, or adoption assistance, in order to encourage the development of alternative services. This legislation also included other requirements that were designed to provide states with incentives to provide prevention and reunification services.

cases of child neglect (in particular) is higher among low-income families, but the difference from higher-income families is probably overstated. 11/ In addition, after being removed from their homes, poor and minority children face more difficulties in returning to their parents' homes or in being placed in other permanent homes. 12/

Recent years have seen an increasing effort to keep families together by providing both prevention and reunification services. The first are services that can help prevent or stop the incidence of abuse and neglect, and therefore prevent the parents from losing custody of the child; these include 24-hour access to intensive family-based services, homemaker services, counseling, child care, emergency temporary shelters, and crisis intervention. Reunification services, on the other hand, help the family to resolve its problems and to regain custody of the child if custody has been lost; such services include family and individual therapy, child care, counseling, and a number of services related to the transition and the follow-up after the child has been returned to the home. Effective prevention and reunification services can reduce family breakups--thereby keeping the family together as well as avoiding the high costs of maintaining a child in foster care (1984 average annual payments were approximately $5,600). 13/

---

11. One study found, in the late 1970s, that approximately 39 percent of the child neglect cases and 28 percent of the child abuse cases receiving services were from AFDC families. Ann Shyne and Anita Schroeder, *National Study of Social Services to Children and Their Families* (Rockville, Md.: Westat. Inc., 1978), cited in Burt and Pittman, *Helping the Helpless* (Washington, D.C.: Urban Institute, 1984), p. 22. Another study estimated that almost half of the protective services caseload comprised families that had received public assistance. (Data from the National Center for Child Abuse and Neglect, cited in Burt and Pittman, *Helping the Helpless*, p. 19.) In contrast, during the same period, about 6 percent of all children were in families that received AFDC (Ibid., p. 22).

    The high incidence of reported cases among the poor probably overstates the actual difference between income levels, however, because upper- and middle-income families are far more likely to have access to private sources of support and counseling, and therefore are not as likely to be reported to the authorities.

12. For example, minority children are in care longer. Black parents have their parental rights terminated (meaning the child is permanently removed from parental custody) more often, but their children are adopted less often. Burt and Pittman, *Helping the Helpless*, pp. 19, 28, and 33.

13. The average cost figure cited here is based on the average payment for children in the Title IV-E AFDC foster care program only. Costs for foster care vary widely--by state, by age of the child, by location of care (private home or institution), and sometimes by special needs designation. For example, in 1980 (the last time foster care payment data were broken down in this way), average annual AFDC payments for children in foster-family homes were $3,000, while average annual payments for child care institutions were $14,000. *Social Security Bulletin*, vol. 44, no. 11 (November 1981), p. 53.

The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) was developed, in part, to provide states with incentives both to avoid the unnecessary placement of children in foster care through prevention services, and to reduce the duration of the placement by first working to reunify the family and, if unsuccessful, arranging for the child to be adopted. Funding for these services is essentially limited to state and local sources, the SSBG, and Title IV-B.

Although no national data are available, some evidence suggests that states have had difficulty in fully developing and implementing the prevention and reunification service systems required by this act. 14/ One reason may be the constraints placed in recent years on each of the main sources of funding for child welfare--the reductions in the Social Services Block Grant, slower growth in Title IV-B funding than had been expected when P.L. 96-272 was passed, and the fiscal difficulties experienced by many states--in conjunction with an increased demand for crisis services. 15/

If the Congress decides to further the development of prevention and reunification services for children in the child welfare system, it could:

- Increase funding for the Social Services Block Grant (SSBG), and earmark the additional funds for child welfare services; or

- Provide incentive funding to foster innovative state approaches to prevention and reunification, as well as funding to evaluate and disseminate information about such approaches to other states.

---

14. For example, a six-state survey conducted by the Urban Institute found that only two of the six states expanded their state funding for preventive services. It also found that some states had to choose between maintaining funds for current crisis services and providing funds for new prevention services. Not surprisingly, it appears that funding for crisis services was maintained. Koshel and Kimmich, *Summary Report on the Implementation of P.L. 96-272*, p. 8.

15. The number of reported cases of child abuse and neglect doubled between 1976 and 1981. This increase is attributed to a combination of factors, including an increase in the public awareness of the problem and an actual increase in the incidence of abuse and neglect partly resulting from stress caused by increased unemployment and related financial difficulties. Burt and Pittman, *Helping the Helpless*, pp. 23-24.

Increase Funding for the Social Services Block Grant, and Earmark the Additional Funds for Child Welfare Services

This option would earmark additional funds for the development of prevention and reunification services for low-income families. 16/ It would increase the states' ability to develop the services mandated by the Adoption Assistance and Child Welfare Act of 1980.

Proponents of increased federal funding for prevention programs argue that, although some states are in good fiscal condition, others do not currently have the resources to develop prevention programs. They maintain that the development of such services should not depend on the fiscal condition of individual states. Further, they contend that such services are cost effective because they reduce the need for foster care. Opponents maintain that this option would restrict the ability of state governments to determine their own service priorities, thus partially reversing the block grant process. Some also argue that the effectiveness of preventive services has not yet been established, and that funding therefore should not be focused on this area.

Provide Incentive Funding to Foster Innovative State Prevention and Reunification Service Programs

Additional funding could also be provided to encourage innovative approaches to help low-income families in the child welfare system. Although several approaches are possible, one alternative would be to allow states to receive additional funds of up to 10 percent of their Title IV-B funding to develop prevention and reunification programs. This would cost a maximum of $20 million for 1985. These programs could include an evaluation component to examine the effects and costs of different approaches. The federal government could also provide funds (through the Children's Bureau) to encourage the collection and dissemination of information about new prevention and reunification efforts. Some states have already developed innovative programs, and information could be disseminated about these current efforts as well.

---

16. To ensure expansion of services, rather than merely substitution of federal for state funding, the legislation would have to include a maintenance of effort clause.

Two existing programs, described below, illustrate state initiatives that might be fostered by increased federal funding. The first provides an innovative alternative to out-of-home care for low-income families, and the second aids selected families who are trying to regain custody of their children.

Emergency Cash Fund for Child Protective Services. In 1979, New Jersey implemented a statewide progam that established an Emergency Cash Fund for families whose children have been identified as being neglected or abused. The program provides families with payments to help them resolve emergency situations such as rent problems, food shortages, and utility cutoffs. The program is intended to prevent immediate harm to children, to prevent the out-of-home placement of children, and to improve the relationship between the client and the caseworker. The service was to be used only if all other resources had failed. 17/

Evaluations of the program have found that the grants, which averaged $123, had positive effects--helping families overcome crises, and allowing the welfare agencies to respond quickly to problems that presented potential danger to the children. Specifically, the evaluations found that, in the majority of cases, the agency decided there was no longer any danger to the child less than one year after the cash assistance was awarded, and so closed the case. Eighty percent of the caseworkers reported that the particular problem that had elicited the cash assistance had not recurred in the following year, and 69 percent reported that the family's situation had improved or that the grant had helped to keep the family intact. Almost 40 percent of the caseworkers found that the emergency assistance allowed the family to stay together when they otherwise would have had to separate. The evaluations tentatively concluded that the fund was able to prevent both the continuation and the reemergence of crisis situations, and apparently had a measurable effect in preventing the placement of children outside their homes. 18/

---

17. Other localities have implemented similar programs. For example, the San Francisco Department of Social Services operates an emergency assistance program with funding from private foundations and corporations.

18. Leroy H. Pelton and Elizabeth Fuccello, "An Evaluation of the Use of an Emergency Cash Fund in Child Protective Services" (December 1978); and Elizabeth Fuccello and Fred Lowe, "A Follow-up Evaluation of the Use of an Emergency Cash Fund in Child Protective Services" (October 1980), Bureau of Research, Division of Youth and Family Services, New Jersey Department of Human Services.

The Family Reunification Benefits Program. Massachusetts recently implemented the Family Reunification Benefits Program (FRBP), an effort to assist poor families (primarily AFDC recipients) whose children have entered foster care. It addresses the fact that parents whose children are placed in foster care usually lose some or all of their AFDC benefits. At the same time that the parents face reduced income, however, they are expected to resolve the problem that caused the placement, as well as maintain an adequate home so the children will be returned.

The FRBP provides cash benefits to AFDC-eligible families whose children are either expected to be in care for six months or less (FRB Short-Term Placement Benefits), or are expected to be returned home in three months (FRB Return Home Benefits). 19/ The benefits are provided to families only once. This program has not yet been evaluated.

TARGETED EDUCATION PROGRAMS

Poor children are more likely than others to fare badly in school, for a variety of reasons. Their parents tend to have less education themselves, and in some cases their homes may provide less support for learning the skills and information on which success in school depends. About half of poor children live in single-parent homes, and their parents may find it particularly hard to provide resources and time for their children. A variety of other effects of poverty--including factors as diverse as poor nutrition, inadequate medical care, and psychological stress--may interfere with poor children's performance and learning in school. In addition, localities with high concentrations of low-income students may find it particularly difficult to raise funds to pay for high-quality education programs.

Many federal programs, including some outside the area of education itself, could help the school performance of many poor children. This section considers two options for changing programs with a major emphasis on education: expansion of Head Start, and increased funding for compensatory education.

---

19. Families eligible for the FRBP include those who continue to receive AFDC for other children still in the home, as well as those whose AFDC payments stopped when the child was placed.

Expand Head Start

Head Start, first authorized in 1964 by the Economic Opportunity Act, provides a wide range of services to low-income children and their families in the context of a preschool child care program. Its goals are diverse and include both helping the children and their families with their present circumstances and lessening the disadvantages faced subsequently by many such children in school and future work. The services provided include child care with a developmental orientation; physical, dental, and mental health services (including screening and immunizations); and nutritional and social services. Parental involvement is extensive, through both volunteer participation and employment of parents as Head Start staff. Formal training and certification as child care workers is provided to some parents through the Child Development Associates program.

Head Start primarily serves children between the ages of three and five and their families. More than 90 percent of the children served are poor, and over 10 percent are handicapped. In fiscal year 1985, approximately 450,000 children--about 19 percent of three- to five-year-old children in poverty--are expected to be served in full-year Head Start programs. 20/ Only about one-fifth of those served, however, are in full-day programs (more than six hours per day).

Head Start is effective as a means of providing services to its target population, but its impact on the subsequent school experience of children in the program remains unclear. On the one hand, a small number of carefully designed studies have demonstrated that preschool education programs can substantially decrease the frequency of school failure among poor children. 21/ One study also found substantially higher employment rates and lower rates of detention and arrest among poor 19-year-old youths who had been provided preschool education. 22/ On the other hand, the evidence is ambiguous concerning the extent to which Head Start itself has demonstrated such success. This ambiguity reflects the difficulty of finding

---

20. The estimate of the proportion of poor children served by Head Start in fiscal year 1985 is based on the assumption that the poverty rate will fall somewhat from the 1983 level.

21. See, for example, J.R. Berrueta-Clement and others, *Changed Lives: The Effects of the Perry Preschool Program on Youths Through Age 19* (Ypsilanti: The High/Scope Press, 1984); and R. Darlington and others, "Preschool Programs and Later School Competence of Children from Low-Income Families," *Science*, vol. 208 (April 11, 1980), pp. 202-204.

22. Berrueta-Clement, *Changed Lives*.

control groups--that is, groups of children excluded from Head Start who could be considered truly comparable to those in the program--whose performance could indicate how Head Start children would have fared without the program. It also reflects the difficulty and expense of following large groups of children for many years to monitor their experiences in school.

Expansion of Head Start could serve a number of disparate purposes, including: providing high-quality child care that meets clear standards to children of working parents currently receiving less adequate care; increasing access to social services, health screening, and health services such as immunization; providing helpful cognitive stimulation to the children, perhaps decreasing the likelihood of later school failure or unemployment; providing benefits, through parent participation and changed parental behavior, to siblings of enrolled children; making it feasible for additional parents to work by providing day care; and providing employment and training for the mothers of some low-income children and other low-income adults.

Additional money could be used for a variety of purposes, including:

- Extending services to a greater proportion of poor children in the three-to-five age group;
- Increasing the proportion of children receiving full-day services; or
- Extending services to children under age three.

Extending the current services to more three-to-five-year-olds would have the advantage of increasing the number of children served, maximizing for each additional dollar the number of children receiving such services as immunizations, health screenings, and improved access to social services. Its drawback is that it would probably do less to free additional parents to work than would increasing the proportion of children receiving full-day services. On the other hand, given the small proportion of children now receiving full-day services, the second option could consume large amounts of additional funding before any additional children were served.

Extending services to children under age three would have two principal advantages. First, it would provide the diverse benefits of the program to children at very young ages--when in some cases their effects might be greatest--and for a longer period of time. Second, it would free some parents of very young children to work. On the other hand, extending services to younger children would have several drawbacks. The cost per student would be higher for any given level of quality of care (because of the higher staff-to-student ratios required for younger children). It would require changes in the operation of centers and training of staff. To the extent that this change resulted in children remaining in the program longer, it would do less to expand the number of children served than would other options. Finally, taken alone, it would do nothing to solve the employment problems experienced by parents because of half-day programs.

The costs of sizable expansions of Head Start could be high. The average annual cost per child is now approximately $2,400. Expanding services to additional children in areas that currently have centers would probably cost nearly as much on a per-child basis--roughly a quarter of a billion dollars per additional 100,000 children served. Extension of services to areas in which no services are currently provided (generally, rural counties with small populations) would cost considerably more, because of the high costs of transportation in rural areas. Extension of the program to full days would be the cheapest option on a per-hour basis because of fixed costs (such as rent).

Increase Funding for Compensatory Education (Chapter 1)

Chapter 1 of the Education Consolidation and Improvement Act of 1981 (formerly, Title I of the Elementary and Secondary Education Act) provides funding for compensatory education programs for low-income and "educationally deprived" students. Funds are allocated to districts and schools on the basis of the number of low-income children, but children are selected to receive services on the basis of their level of achievement, independent of their income. The purpose of the program is twofold: to help disadvantaged students improve their educational performance, and to provide fiscal relief for districts burdened by larger numbers of poor children with special educational needs. 23/

Title I was found to be highly effective in targeting fiscal relief to districts with large numbers of poor children. 24/ Evaluations have also

---

23. Omnibus Budget Reconciliation Act of 1981, Section 552.

24. The most recent evaluation of the distributional impact of federal compensatory education funding was conducted in the mid-1970s by the National Institute of Education (*Title I Funds Allocation: The Current Formula*, September 30, 1977). The effect of subsequent legislated changes is therefore unclear.

consistently found that the program has positive short-term effects on student performance. Evidence about its longer-term impact is more mixed, as some studies show a tendency for former compensatory education students to regress somewhat (in terms of their percentile ranking among all students) after leaving the program. 25/ On the other hand, groups that are the primary recipients of these services (such as minority students and students attending disadvantaged urban schools) have shown relative gains in achievement in recent years, and some observers suggest that this may reflect the effects of this program. 26/ While compensatory education may have played a role in this trend, however, such a role has not been clearly documented.

While appropriations for Chapter 1 have fluctuated relatively little in recent years and are currently about 14 percent above the level of 1979, the real level of support provided by these appropriations has been seriously eroded both by inflation and by the growing number of children in poverty. In real terms, the 1985 appropriation for Chapter 1 is roughly 29 percent lower than the 1979 appropriation. The real funding per poor child has declined even more markedly; in 1983 (the last year for which data on the number of children in poverty are available), real appropriations per child in poverty were 53 percent of the 1979 level. While the number of poor children in 1985 is not yet known, it is likely that 1985 Chapter 1 appropriations per poor child have increased modestly since 1983 but remain far below the 1979 level. 27/

---

25. See, for example, Education Department, *Annual Evaluation Report, Fiscal Year 1982*, pp. 29-32; and R. M. Gabriel, "Sustained Achievement of Differential Patterns of Compensatory Education: A Longitudinal Data Base," in R. Stonehill (Chair), *The Sustained Achievement of Title I/Chapter 1 Students: A National Study* (Symposium presented at the annual meeting of the American Educational Research Association, April 1985). Preliminary findings from some recent research suggest that skills in the areas that are most emphasized and practiced in compensatory programs are often not lost. Rather, the tendency of former compensatory students to fall back in terms of their percentile ranking after leaving the program appears to stem from a loss of less-emphasized skills and perhaps an inability to master new material subsequently presented in regular classes at a sufficiently rapid rate. (Robert M. Stonehill, Personal Communication, May 1985).

26. See, for example, Archie E. Lapointe, Statement to the Subcommittee on Elementary, Secondary, and Vocational Education of the House Committee on Education and Labor, January 31, 1984.

27. Between 1983 and 1985, total Chapter 1 appropriations increased only slightly more than enough to offset inflation. The number of children in poverty, however, is likely to have decreased as a result of the current economic recovery. If the number of poor children in 1985 is equal to the number in 1980--a rather optimistic assumption--real Chapter 1 funding per child in poverty in 1985 would be 63 percent of that in 1979.

Increasing Chapter 1 by $1.5 billion would fully offset the decline of real funding levels attributable to inflation, but would offset none of the additional erosion caused by the increased number of children in poverty. [28] This would enable districts to extend services to some of the newly poor children who are in need of compensatory education. It would also enable some districts to maintain special services for a longer part of some children's schooling--which, the evidence suggests, may be necessary to maintain the gains shown by some compensatory education students. On the other hand, given current budgetary constraints, channeling such a large amount of money into Chapter 1 might reduce funding available for other services for children in poverty that some might consider more urgent. Some also argue that since the program's long-term impacts are less clear, funding should not be expanded.

SERVICES RELATED TO ADOLESCENT PREGNANCY AND PARENTHOOD

Problems of adolescent pregnancy and parenthood are central to any discussion of poverty among children. Teenage mothers, and women who became mothers when they were teenagers, are very likely to be poor, and they comprise a disproportionate share of the AFDC population. Adolescent parenthood is therefore related to poverty experiences among two groups of children--teenagers, who are themselves still children, and their children.

The rest of this chapter describes some of the problems of teenagers who have children and then examines options to prevent teenage pregnancy or to reduce poverty among teenage parents.

The Problems of Pregnant Adolescents and Adolescent Parents

Adolescent pregnancy and parenthood have received increasing attention in recent years. Three trends are of particular concern. First, the adolescent pregnancy rate rose steadily throughout the 1970s, although it appears to

---

28. The overlap between children in poverty and those showing the chronic low achievement that is the focus of compensatory education is not complete, and an unknown proportion of newly poor children do not require the services typically provided under Chapter 1, although they may require other special services. Accordingly, real appropriations per poor child in need of compensatory education have fallen by less than have real appropriations per poor child.

have leveled off in the last few years (see Figure 2). 29/ Over one million teenagers have become pregnant each year since 1974. One study projected that four out of every ten girls aged 14 will become pregnant before they are 20. 30/ Second, the use of abortion by adolescents increased during the 1970s--rising from 24 percent of all adolescent pregnancies in 1973 to 39 percent in 1982--although its rate of growth has also slowed recently. 31/ Third, the birthrate of unmarried teenagers rose by 29 percent between 1970 and 1982 (see Figure 3). When combined with the increasing propensity of teenagers to raise their children themselves rather than allowing them to be adopted, this trend has resulted in increasing numbers of single teenage parents. These rates and trends differ between races, with birthrates and unmarried birthrates substantially higher among blacks and other minorities than among whites. In recent years, however, the unmarried birthrate among whites has increased substantially while that of blacks has decreased.

Adolescent pregnancy and parenthood are of particular concern because they are clearly linked to poverty and long-term welfare dependency. Adolescent parenthood is associated with a series of related events that increase the new family's likelihood of being poor. These include a greater risk of pregnancy complications, reduced schooling, an increase in single parenthood coupled with inadequate child support, larger subsequent family size, and lower earnings.

Teenage mothers are much more likely to have medical complications during pregnancy than other mothers. For example, teenage mothers have higher rates of toxemia, anemia, and prolonged labor; higher rates of infant mortality; and more babies that are premature or have low birthweight. 32/ Many of these complications seem to be linked to the level of prenatal care

---

29. All statistics are for adolescent females aged 15-19, unless otherwise specified. Pregnancy and abortion data are from the Alan Guttmacher Institute (AGI), and birthrate data are from the National Center for Health Statistics (NCHS), *Advance Report of Final Natality Statistics, 1982*. vol. 33, no. 6, Supplement (September 28, 1984).

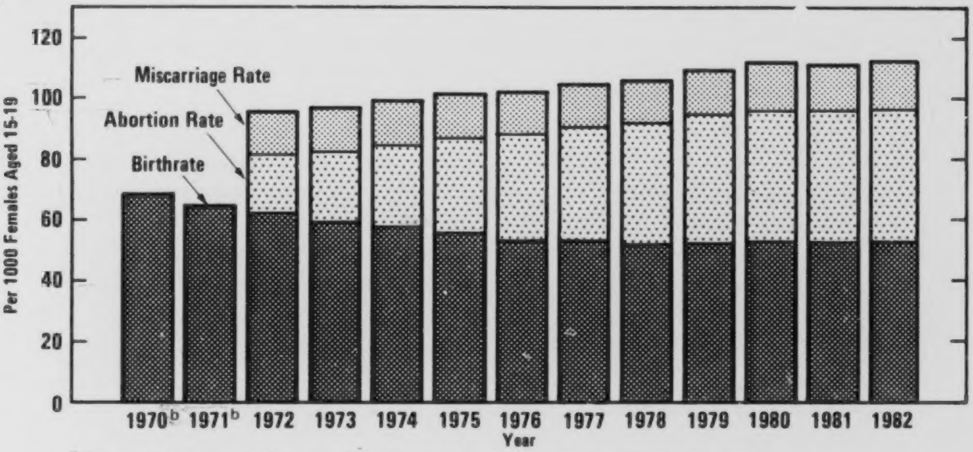
30. Projections are based on pregnancy rates from the late 1970s. C. Tietze, "Teenage Pregnancies: Looking Ahead to 1984," *Family Planning Perspectives* (1978), cited in Alan Guttmacher Institute, *Teenage Pregnancy: The Problem That Hasn't Gone Away* (New York: AGI, 1981), p. 21.

31. The increased use of abortion, in combination with other factors, has resulted in a decrease in the birthrate among all adolescents over the same period.

32. Low birthweight is associated with increased infant mortality rates, birth injuries, and neurological defects--including mental retardation, cerebral palsy, and epilepsy.

Figure 2.

Adolescent Pregnancy Rate and Outcomes, 1970-1982[a]



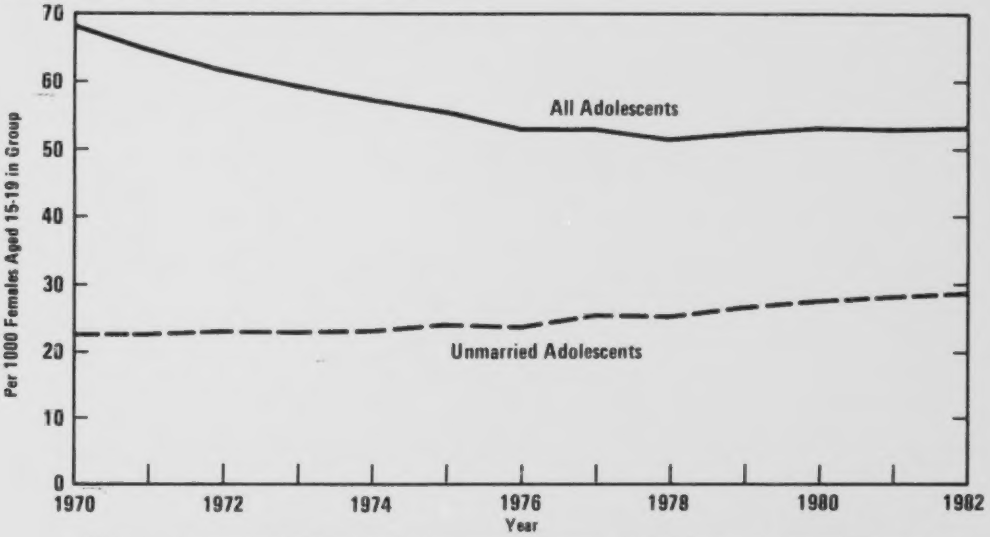
[a] The pregnancy rate is the sum of the birthrate, abortion rate, and miscarriage rate.

[b] Pregnancy, abortion, and miscarriage data are not available before 1972 because abortion was not legal in many areas at that time.

SOURCE: Congressional Budget Office. Pregnancy and abortion data from the Alan Guttmacher Institute, unpublished data. Birth data from National Center for Health Statistics, *Advance Report of Final Natality Statistics: 1982,* vol. 33, no. 6, Supplement (September 28, 1984), p. 16.

Figure 3.

Adolescent Birthrates, 1970-1982



SOURCE: Congressional Budget Office, from National Center for Health Statistics, *Advance Report of Final Natality Statistics: 1982,* vol. 33, no. 6, Supplement (September 28, 1984), pp. 16 and 31.

rather than to the young age of the mother (particularly for teenagers between the ages of 15 and 19), and can be largely eliminated if the pregnant adolescent obtains early, high-quality prenatal care.

Young parents are far more likely to drop out of school than are other teenagers, which substantially affects their future ability to be self-sufficient. Although dropout rates among teenage parents have fallen in past decades, a large majority of teenage mothers are not enrolled in school nine months after giving birth. 33/ The causal relationship between dropping out and adolescent parenthood appears to be two-directional: those who are parents find it more difficult to stay in school, and those who have no motivation to stay in school are more likely to become adolescent parents.

Although many teenage mothers marry before age 20, their marriages tend to be unstable; it is likely, therefore, that a teenage mother will spend at least a portion of her life as a single parent--whether or not she marries the father of the child. Moreover, teenage mothers receive very little financial aid from the fathers of their children. 34/

Having a child as a teenager substantially increases the likelihood of eventually having a large family. Moreover, parents who have had children as adolescents can find it difficult to support their families both initially and later on, as they frequently have lower-paying jobs than do those who have delayed childbearing. Partly because of the combination of these two factors--large family size and low wages--the poverty rate among single mothers climbs steadily with each additional child.

---

33. One study found that the proportion of pregnant adolescents enrolled in school five months *before* giving birth rose substantially between 1968 and 1979--from 20 percent to 42 percent for whites, and from 45 percent to 70 percent for blacks. Although the proportion enrolled nine months *after* giving birth also rose, the enrollment levels were much smaller--rising from 5 percent to 17 percent for whites and from 15 percent to 39 percent for blacks. Frank Mott and Nan L. Maxwell, "School-age Mothers: 1968 and 1979" (1981), cited in Richard F. Wertheimer and Kristin A. Moore, *Teenage Childbearing: Public Sector Costs--Final Report* (Washington, D.C., Urban Institute Project Report, December 1982), p. 7.

34. In 1978, only 6.3 percent of all never-married mothers received child support, and only 16 percent of all single mothers between the ages of 18 and 24 received child support. Department of Commerce, Bureau of the Census, *Child Support and Alimony: 1978*, (Current Population Reports, 1981), p. 13. Adolescent fathers are unlikely to be able to provide substantial financial support to the mothers of their children, as they tend to drop out of school earlier and have jobs with low pay rates.

As might be expected, a disproportionate number of welfare recipients are teenage parents and women who were teenage parents. In 1975, more than 60 percent of AFDC recipients under the age of 30 were estimated to have been teenage parents, as compared with 35 percent of the rest of the under-30 female population. 35/ Moreover, mothers under 30, who are nonwhite, unmarried, and high school dropouts, are likely to be dependent on welfare for long periods of time--their average stay on welfare being 10 years. 36/ Because of this pattern, teenage parenthood is costly not only for those involved, in terms of quality of life and opportunities, but also for the government. An Urban Institute study estimated that the federal government spent $8.55 billion in 1975 on AFDC households where the mother was a teenager when she had her first child. 37/ Another study estimated that each of the estimated 442,000 teenage first births in 1979 would cost the federal, state, and local governments together an average of $18,700 in additional health and welfare costs over the next 20 years. 38/

Reducing the Incidence of Adolescent Pregnancy

The first set of options considered here are those that prevent the incidence of teenage pregnancy; those that seek to minimize its adverse consequences are examined next. Options to avoid pregnancy are important because once the adolescent becomes pregnant, the choices and interventions become more difficult, more traumatic, and more expensive. Teenage pregnancy can be prevented both by encouraging adolescents to abstain from sexual relations and by providing effective birth control for those who are sexually active. In devising pregnancy prevention strategies, it is important to recognize the high rates of sexual activity among teenagers. In 1979, half

---

35. Kristin A. Moore, "Teenage Pregnancy and Welfare Dependency," *Family Planning Perspectives*, vol. 10, no. 4 (July/August 1978), p. 234. Additional information available in Kristin A. Moore and Martha R. Burt, *Private Crisis, Public Cost: Policy Perspectives on Teenage Childbearing* (Washington, D.C.: Urban Institute Press, 1982), p. 26, and Wertheimer and Moore, *Teenage Childbearing*, p. 22.

36. Mary Jo Bane and David T. Ellwood, "The Dynamics of Dependence: The Routes to Self-Sufficiency," Department of Health and Human Services Contract Report (Cambridge, Mass: Urban Systems Research and Engineering, Inc., 1983), p. 30.

37. Wertheimer and Moore, *Teenage Childbearing*, p. 24. A large portion of these costs are in the AFDC program, as these women form a substantial part of the AFDC population. The rest is for Medicaid and food stamps.

38. SRI International, *An Analysis of Government Expenditures Consequent on Teenage Childbirth*, prepared for the Population Resource Center (February 1979), p. 5.

of female adolescents 15 to 19 years old and seven out of ten male adolescents 17 to 21 years old reported having engaged in premarital sexual activity. 39/ Since many pregnancies occur within the six months following first intercourse, effective prevention efforts--particularly in the area of family planning--would have to be directed to all teenagers, regardless of whether or not they have engaged in sexual activity. 40/

Programs that work to reduce teenage birthrates, as compared with those that provide services after pregnancy, result in substantial savings to federal and state governments. A study made in 1981 using a simulation model estimated that reducing the birthrate of teenagers under 20 years of age by one-half would lead to a 25 percent reduction in AFDC costs in 1990, while halving the birthrate of only those teenagers who are under the age of 18 would result in savings of 12 percent of AFDC costs. 41/

Considerable controversy exists as to what motivation teenagers have to avoid sexual activity and early parenthood. Some believe that many teenagers, particularly those who are poor, have no motivation to avoid early parenthood because they do not feel that education and employment opportunities offer them an alternative way of life. 42/ This would indicate that at-risk populations need services that emphasize real opportunities through education and employment. Others argue that many teenagers become pregnant in order to obtain welfare (primarily AFDC) benefits. It is inherently difficult to test this hypothesis, but the evidence that does exist

---

39. Melvin Zelnik and John F. Kantner, "Sexual Activity, Contraceptive Use and Pregnancy Among Metropolitan-Area Teenagers: 1971-1979," *Family Planning Perspectives*, vol. 12, no. 5 (September/October 1980), pp. 230-231. This survey included only teenagers living in Standard Metropolitan Statistical Areas (SMSAs). It used different age ranges for males and females because surveys indicate that teenage women are most likely to be involved with men about two years older than they are.

40. One study found that up to half of premarital first pregnancies occurred during the six months following first intercourse. Laurie S. Zabin, John F. Kantner, and Melvin Zelnik, "The Risk of Adolescent Pregnancy in the First Months of Intercourse," *Family Planning Perspectives* (1979), cited in Alan Guttmacher Institute (AGI), *Teenage Pregnancy*, p. 74.

41. Wertheimer and Moore, *Teenage Childbearing*, p. 186.

42. This is somewhat substantiated by studies finding that adolescent parents tend to have lower educational expectations, and that adolescents who have higher education and employment expectations are more likely to delay sexual activity and are less likely to have children while adolescents.

does not support it. 43/ For example, less than one-fourth of the pregnancies occurring to teenagers who do not marry are reported as intentional. In any event, many factors have been shown to play important roles in determining teenage sexual activity and contraceptive use. These include low self-esteem and aspirations, ignorance about pregnancy and contraception, fear or embarrassment about contraceptive use, and concern about the effect of sexual abstinence or contraceptive use on the relationship.

Current federal efforts to reduce the incidence of teenage pregnancy take two approaches. First, the Adolescent Family Life Program--of the Office of Adolescent Pregnancy Programs in the Department of Health and Human Services--is allowed to spend about one-fourth of its funds (approximately $3 million) for the prevention of teenage sexual relations. The prevention component of the program funds demonstration projects that focus primarily on helping parents both to educate their children on sexual matters and to encourage their teenagers to abstain from sexual relations. Second, the federal government helps finance family planning services for, among others, sexually active teenagers. Possible federal options include expanding family life education efforts and targeting family planning services toward adolescents.

Increase Assistance for Family Life Education Programs. One way both to discourage teenagers from engaging in sexual activity and to encourage responsible behavior among those who are sexually active is through comprehensive education efforts, sometimes called family life education courses. Such courses teach adolescents about a number of issues they will face as young adults, including decisionmaking skills, family life, and financial management, though they generally focus on providing students with sexuality education. 44/ Sexuality-education courses usually include

---

43. A number of studies have examined the hypothesis that the availability of welfare benefits causes teenagers to become pregnant. Most have found little or no evidence for this, although a few have concluded that the availability of welfare benefits could play a role in a small proportion of the total number of teenage pregnancies. There is some evidence that the availability of welfare may influence a pregnant teenager's decision about questions such as whether to raise the child, get an abortion, have the child adopted, or marry the father of the child. The specific incentives, however, depend on the specific AFDC policies of the state. Moore and Burt, *Private Crisis*, pp. 107-113.

44. The Life Planning Curriculum, offered by the Center for Population Options, is an example of a curriculum that covers a broader range of topics and does not focus only on sexuality education.

information on sexual responsibility and family planning, as well as discussions of values and decisionmaking.

Evaluations of sexuality-education programs have found that most served to increase knowledge about issues surrounding sexuality and that such programs did not increase the incidence of sexual activity. The component of sexuality-education programs that seems most important in reducing pregnancy rates is the provision of accessible clinic services. 45/ Programs with medical components were found to be successful in increasing contraceptive use and substantially reducing pregnancy rates. 46/

Although the Department of Health and Human Services funded some family life education initiatives in the 1970s--through the Office of Family Planning and the Centers for Disease Control--such efforts have been largely discontinued. Current efforts are limited to the Adolescent Family Life Program, which funds a few family life education demonstration programs that focus primarily on promoting abstinence from sexual relations, and to the Department of Education, which provides schools with technical assistance in this area on request.

Federal assistance for family life education initiatives could be expanded by providing increased financial and technical assistance for curriculum development and teacher training, as well as increased funding for evaluation and research on existing family life education programs. Such funding could be provided through the Office of Family Planning, the Office of Adolescent Pregnancy Programs, or the Centers for Disease Control, all three of which have funded such programs in the past. Given the evidence that family life education is more effective at lowering pregnancy rates when combined with a clinic and the provision of general

---

45. Douglas Kirby, *Sexuality Education: An Evaluation of Programs and Their Effects* (Santa Cruz, Calif.: Network Publications, 1984), pp. 1-3 and 13. Similar findings are in Melvin Zelnik and Y.J. Kim, 1982, cited in Society for Research in Child Development, "Adolescent Pregnancy," *Washington Report*, vol. 1, no. 2, p. 8; and in Douglas Kirby, J. Alter, and P. Scales, "An Analysis of U.S. Sex Education Programs and Evaluation Methods" (1979), cited in Moore and Burt, *Private Crisis, Public Cost*, p. 68.

46. For example, the St. Paul Maternal and Infant Care project found that their school-based clinic--which provides comprehensive health services, family planning information and counseling, access to contraceptives, and pre- and postnatal services--reduced pregnancy rates by 55 percent. Laura Edwards and others, "Adolescent Pregnancy Prevention Services in High School Clinics," in Frank F. Furstenberg, Jr., Richard Lincoln, and Jane Menken, eds., *Teenage Sexuality, Pregnancy, and Childbearing* (Philadelphia: University of Pennsylvania Press, 1981), p. 373.

health and family planning services, however, the Centers for Disease Control or the Office of Family Planning--both of which deal with medically or clinically focused programs--could be the most effective mechanisms.

There is little opposition to the idea of family life education, as most educators, parents, and health officials agree that it is essential to any effort to encourage sexual responsibility (and prevent pregnancy) among teenagers. Less agreement exists, however, as to the most appropriate method for delivering such education. The controversy centers around three questions: who should provide such education, what information should be provided, and to whom it should be provided. In order to develop effective programs that meet the needs and wishes of parents, students, and educators, federal efforts would have to involve substantial interaction with local communities. One approach would be to provide grants and technical assistance to local health and education agencies, allowing them to develop programs directed specifically toward the needs of their communities.

Proponents of this approach believe that teenagers should have access to information about sexuality, but feel that both parents and educators should be involved in determining the information that adolescents receive. Others think that ideally all information should come from parents, but that all teenagers deserve access to information and services, even if their parents do not provide it. In contrast, opponents argue that all information should come from the adolescent's parents and that the government should not be involved.

Expand Access to Family Planning Services. Educational efforts such as those discussed above cannot effectively reduce pregnancy rates for teenagers that become sexually active unless teenagers of both sexes have access to family planning information and services. Although increasing proportions of sexually active teenagers used some form of birth control throughout the 1970s, one study found that in 1979 up to 27 percent of premaritally sexually active teenage women never practiced contraception, and another 39 percent used contraceptives only sporadically.[47] A GAO study found that many adolescent women lacked access to family planning services for a number of reasons, including poor coordination between programs, insufficient focus on at-risk populations (including adolescents),

---

47. Zelnik and Kantner, "Sexual Activity, Contraceptive Use, and Pregnancy," Table 7.

and inadequate financial resources for programs. 48/ Federal funding for the major family planning programs has been reduced since the time of the GAO report, and over 60 percent of the family planning clinics reported decreases in real income. 49/

Family planning services are currently funded by Title X of the Public Health Services Act (the primary source of federal funding for family planning); the Social Services Block Grant (SSBG); the Maternal and Child Health Block Grant (MCHBG, or Title V of the Social Security Act); and Medicaid. State and local governments, patient fees, and other private sources also contribute funds to family planning. 50/

There is some controversy over the effectiveness of family planning services as a means of reducing adolescent parenthood. Proponents of the program focus on the decreasing number of adolescent births, the decreasing pregnancy rate among those teenagers who are sexually active, and the increased use of contraceptives. They suggest that both pregnancy and birthrates would be much higher without family planning services. They also argue that family planning services effectively reduce the number and rate of abortions. One study, for example, estimated that almost three pregnancies were averted for every ten teenagers enrolled in family planning in 1975. This study estimated that family planning programs averted 2.6 million unintended adolescent pregnancies during the 1970s--translating into 944,000 averted births, 1,376,000 averted abortions, and 326,000 averted miscarriages. 51/ Moreover, proponents of family planning

---

48. General Accounting Office, *Better Management and More Resources Needed to Strengthen Federal Efforts to Improve Pregnancy Outcomes*, (Washington, D.C.: U.S. Government Printing Office, January 1980), pp. 56-61.

49. Funding reductions were cushioned somewhat, although not completely offset, by increased state and local funding and increased use of patient fees. Agencies experiencing a decrease in funding also reported that they reduced the number of clinic sites from 1980 levels. Aida Torres, "The Effects of Federal Funding Cuts on Family Planning Services, 1980-1983," *Family Planning Perspectives*, vol. 16, no. 3 (May/June 1984), pp. 134 and 138.

50. A 1984 study found the following breakdown in the proportion of funds (for family planning agencies) contributed by each funding source in 1983: Title X, 33 percent; state and local government funds, 17 percent; SSBG, 13 percent; patient fees, 13 percent; Medicaid, 10 percent; MCHBG, 7 percent; and other private sources, 7 percent. Ibid., p. 136.

51. J.D. Forrest, A.I. Hermalin, and S.K. Henshaw, "The Impact of Family Planning Clinic Programs on Adolescent Pregnancy," *Family Planning Perspectives*, vol. 13, no. 3 (1981), p. 109. Other studies--for example, *Impact of Family Planning Programs on Fertility: The U.S. Experience*, by Phillips Cutright and Frederick S. Jaffe (1977)--have come to similar conclusions.

programs argue that such services are cost-effective--particularly in the case of teenagers, where each dollar invested in family planning services is estimated to save $2.90 in reduced health and welfare costs in the following year alone. 52/

Opponents of family planning services point out that both the rate of teenage sexual activity and the total number of teenage pregnancies have risen in recent years, at the same time as funding and availability of family planning services have grown. They conclude, therefore, that the availability of such services has caused the increases in adolescent sexual activity and pregnancy. There are, however, several studies that have found that the availability of family planning services has little effect on rates of sexual activity, 53/ but does reduce the incidence of pregnancy and lower birthrates.

Family planning programs could be oriented toward adolescents in three ways: by targeting current federal family planning funds to adolescents; by increasing federal family planning funds and focusing the additional money on adolescent family planning services; or by creating a matching grant program to states.

The first two approaches, which would rely primarily on federal funding, could be accomplished through any of the current funding sources; for several reasons, however, such changes are probably most feasible through Title X of the Public Health Service Act. First, its primary function is to provide family planning services. Second, it can easily be targeted, as it is not a block grant. Third, the majority of teenagers who make use of family planning services obtain them through clinics--which is

---

52. Mary Chamie and Stanley K. Henshaw, "The Costs and Benefits of Government Expenditures for Family Planning Programs," *Family Planning Perspectives*, vol. 13, no. 3 (1981), p. 123.

53. Kristin Moore and Steven Caldwell, "Out-of-Wedlock Pregnancy and Childbearing" (1976) and several other studies, cited in Moore and Burt, *Private Crisis, Public Cost* (1982), pp. 70-74. It is estimated that six out of seven teenagers who come to family planning clinics do so after they initiate intercourse. Studies have also shown that the majority of teenagers come to family planning clinics after they have been sexually active for nine months or more. Alan Guttmacher Institute (AGI), *Teenage Pregnancy* (1980), p. 44, Figure 41; and AGI, *Public Policy Issues in Brief*, vol. 4, no. 1 (March 1984), p. 1.

the primary method of service delivery under Title X. 54/ Finally, it is targeted to low-income patients, and the Congress already requires programs receiving Title X funding to provide services to adolescents. 55/

The Congressional mandate could be strengthened by requiring programs to expand outreach efforts, to develop services and programs specifically oriented toward the needs of adolescents, or to change their programs in other ways to improve their accessibility for the teen population. Such targeting efforts could be particularly focused on those adolescents who are already parents, as they are likely to bear subsequent children. 56/ If this targeting of services was done without a corresponding increase in funding, family planning services would necessarily have to be withdrawn from some of the nonadolescent populations currently being served. If, instead, federal funding for Title X was expanded and earmarked for serving adolescents, an estimated 1.4 million additional adolescents could be served for an additional $100 million.

Proponents of this approach believe that family planning services should be available to all sexually active teenagers. They argue that the government has a responsibility to provide access to such services--to ensure equitable access across states, to reduce the likelihood of adverse consequences for the teenagers, and to control future welfare and health costs. Most proponents agree that parental involvement is positive and should be encouraged, but they also feel that teenagers who are unable to

---

54. A study by the National Center for Health Statistics found that 55 percent of the family planning visits of teenagers (ages 15 to 19) were to clinics rather than to private medical services. Furthermore, 74 percent of the family planning visits of black teenagers were to clinics. This can be compared with an overall rate of 36 percent for all women, aged 15-44. Marjorie Horn and William Mosher, "Use of Services for Family Planning and Infertility: United States, 1982," *NCHS Advancedata*, no. 103 (December 20, 1984), p. 3.

55. The majority of patients in Title X clinics are low-income, and are able to receive free services if they are below the poverty line. Those who are slightly better off pay on a sliding scale.

56. This population could be identified through a number of mechanisms--one being the AFDC caseload. There is, currently, a statutory requirement that all AFDC recipients (and sexually active minors in their households) must be offered family planning services. See the Social Security Act, Title IV, Section 402(a)(15).

Some evidence suggests that substantial savings could be realized in AFDC costs if the subsequent childbearing of the adolescent parent was reduced. One study estimated that welfare costs would be reduced by 17 percent in 1990 if the completed family size of teenage mothers were the same as that of mothers who delayed childbearing until their twenties. (Wertheimer and Moore, *Teenage Childbearing*, pp. 73, 194-195.)

communicate with their parents should have access to family planning services. On the other hand, some opponents argue that family planning initiatives should come from the local level so as to best accommodate local concerns. Others feel that family planning information should come only from the parents of the teenager and argue against any government action in the area.

The last targeting approach involves providing matching grants to the states to initiate, expand, or improve their family planning services for adolescents. The federal government could offer states incentives to improve their family planning services for adolescents by providing: federal matching grants for program development and operation expenses; capital subsidies and start-up grants for adolescent pregnancy prevention programs; and technical and financial assistance to help current programs coordinate their services or make their services more accessible to teenagers. Such funding could be provided through a grant program administered by the Office of Family Planning.

The cost of this approach--and the number of additional adolescents served--would depend on two factors: the willingness of states to expand their commitment to adolescent family planning, and the matching rate chosen. If the match was 50 percent, the federal cost would be approximately half of the previous option (or $50 million) to provide services to 1.4 million adolescents, with the remaining $50 million being paid by the states.

Proponents of this approach argue that family planning policy is best formulated on the local and state level, so as to take into account local concerns. Some opponents believe that family planning policy should be mandated from the federal level, so as to ensure equal access across state and county lines. Others are opposed to all governmental action in the area of family planning, particularly for the adolescent population.

Options Involving Pregnant Adolescents and Adolescent Parents

Whatever efforts are made to reduce the adolescent pregnancy rate, some number of pregnancies will continue to occur. Adolescents who do become pregnant are confronted by emotionally painful decisions that can have serious consequences. They first must decide whether to have their babies or to seek abortions; if they choose to give birth, they must decide whether to raise their children or to allow them to be adopted. Those who choose to keep their children are then likely to be confronted by a number of difficulties--including diminished educational attainment and job skills--and are likely to be living in poverty.

The first decision confronting any pregnant woman--whether to have her child or abort the pregnancy--is particularly traumatic, reflecting deeply held moral judgments regarding the nature of abortion. Some people believe that all women should have the right to choose whether or not to bear children, even after they become pregnant. Others are strongly opposed to abortion, frequently because they believe it is the taking of a human life. Both positions represent strongly held beliefs concerning individual rights and morality.

The controversy and ambiguity surrounding the issue of abortion is reflected in how it is treated by the federal government. The Supreme Court ruled 12 years ago that abortion is legal, and that women have a constitutional right to abortion as a matter of privacy. On the other hand, the federal government no longer allows federal funds to be used to finance abortions except in cases in which the mother's life is endangered if she carries the pregnancy to term. 57/ This action has also been ruled as constitutional by the Supreme Court. As a result of this restriction on funding, low-income women who rely on Medicaid or other federal health programs as their primary means of financing health care are now more likely to carry their pregnancies to term or to delay their abortions. 58/

Two approaches could be taken to change the current legal status of abortion. Those who view abortion as a constitutional right and who maintain that the ability to exercise such rights should not depend on income argue, among other things, for allowing abortions to be financed through Medicaid. Some who are opposed to abortion as a matter of principle, on the other hand, contend that the 1973 Supreme Court decision should be overturned or the Constitution amended to prohibit abortions for all women. In any event, few people consider the choice concerning the appropriate legal status of abortion to be primarily an issue of childhood poverty.

---

57. Since 1981, federal funding for abortions has been limited to situations where the life of the mother was threatened. In addition, federal funding between 1977 and 1981 was allowed in certain other situations--for example, in cases of reported rape or incest.

58. Stanley K. Henshaw and Lynn S. Wallisch, "The Medicaid Cutoff and Abortion Services for the Poor," *Family Planning Perspectives*, vol. 16, no. 4, (July/August 1984), pp. 170-171. Currently 15 states provide state funds to poor women to obtain abortion services. Access to such services is limited, however, as approximately 78 percent of all U.S. counties (accounting for 28 percent of all women aged 15-44) had no abortion provider in 1982. Access is particularly limited for women living in nonmetropolitan areas. Stanley K. Henshaw, Jacqueline D. Forrest, and Ellen Blaine, "Abortion Services in the United States, 1981 and 1982," *Family Planning Perspectives*, vol. 16, no. 3 (May/June 1984), pp. 119-127.

Regardless of what--if any--change may be made in the current treatment of abortion, recent experience suggests that a large number of teenagers will continue to become pregnant and that many of them will choose to give birth. Two sorts of federal options are available to help these adolescents:

- Providing teenagers with information concerning adoption as an alternative for their children; and
- Providing services for teenagers who choose to raise their children themselves, to limit adverse consequences for both the mothers and their children.

Expand Access to Adoption Services. Although national data on adoption do not exist, and very little research has been done in this area, there is some indication that teenage mothers do not often choose to have their children adopted or raised by others. Furthermore, it appears that they may be less willing to take this route than they were in the early 1970s, 59/ although there does not appear to be any shortage of families willing to adopt healthy infants--minority or nonminority.

The federal government has recently expanded efforts to make adoption a viable alternative for teenagers. Adoption opportunities are a priority of the Adolescent Family Life (AFL) Act, through which the federal government funds demonstration programs, which generally include adoption components, and a few research projects focusing on adoption. A limited amount of additional funding for adoption assistance, although not focused on adolescents, is provided through the Adoption Opportunities Program to projects facilitating the adoption of "special needs" children. Special needs children are defined as those who have specific conditions making it difficult for them to be placed in an adoptive home. The specific definition is determined by the state but generally includes conditions such as ethnic background, age, membership in a sibling group, or mental or physical handicap. Finally, some funding from the Social Services Block Grant is used for general adoptive services, although few data exist as to the size

---

59. Approximately 96 percent of all unwed teenage mothers in 1976 (90 percent of white unwed teenage mothers and almost 100 percent of black unwed mothers) were estimated to have kept their children rather than allowing them to be adopted or raised by others, as compared with 75 percent of whites and 94 percent of blacks in 1971. Zelnik and Kantner, "First Pregnancies to Women Aged 15-19, 1976 and 1971," *Family Planning Perspectives*, vol. 10, no. 11 (1978), Tables 5 and 11, cited in Alan Guttmacher Institute, *Teenage Pregnancy*, p. 74.

and scope of state efforts in specific social service areas. For lack of information, and because many of these projects were begun recently, it is impossible to assess the impact of these federal policies on the use of adoption by adolescent mothers.

The federal government could increase its funding of any of these programs, as well as direct additional funding to projects that stress the importance of facilitating the adoption of the children of teenage mothers. For example, funds could go to projects that develop outreach programs for teenage mothers and provide counseling services. Such efforts would probably be most effective through either the Adolescent Family Life Program or the Adoption Opportunities Program, as these include specific adoption components and are not block grants.

The federal government could also require that all federally funded family life education and family planning programs provide information and counseling on adoption. This option could be included in a broader effort to increase the availability of family life education and family planning programs (for example, the options presented earlier in this chapter) with little or no additional cost. The federal government could allocate a small amount of funds for technical assistance and staff training on adoption issues.

Increased funding of research and data collection on adoption issues could improve the development of future adoption policy. Information on the incidence of adoption, the characteristics of families who adopt and of those who have their children adopted, the characteristics of children who are and are not adopted, and the determinants of adoption are all important in order to develop policies that would expand adoption opportunities for young mothers. Continued funding of carefully designed demonstration and research projects, and efforts to disseminate the evaluation findings, would be important in order to evaluate fully these efforts.

Provide Comprehensive Services to Adolescents Who Choose to Raise Their Children. Adolescent parents who choose to raise their children themselves are likely to experience a number of problems--including inadequate education, medical problems, large family size, and welfare dependency. Given the scope and complexity of their difficulties, it is not surprising that most experts agree that these teenagers need programs with a comprehensive approach. The following section describes what is known about existing comprehensive service programs for adolescent parents, discusses two possible approaches to encourage the development of such programs, and then examines two ways of targeting services to specific groups of teenage parents.

Several current demonstration programs try to reduce the economic dependence of teenage parents by helping them obtain comprehensive services such as education, support services (such as child care), medical and nutritional services, employment and training opportunities, and family planning services. Types of programs include those that provide the services directly as well as those that work to ensure that their clients have access to the variety of services available in the community. 60/

Although evaluation results vary across the different programs, some comprehensive programs have improved pregnancy and health outcomes for adolescents and their babies by providing them with timely prenatal care; have helped teenagers remain in school during pregnancy; and have increased the likelihood that adolescents will return to school after delivery. 61/ Less evidence is available on the long-term educational and employment benefits of these programs, however, and continuing evaluations are necessary. 62/

---

60. An example of a program providing direct services is the St. Paul Maternal and Infant Care Project, which provides primarily school-based services, including health care, child care, social services, nutrition education, parenting skills, family planning, and family life programs. See Edwards and others, "Adolescent Pregnancy Prevention Services in High School Clinics" (1981).

A program that helps teenagers have access to services is the Parent Too Soon program in Illinois, which coordinates the services of 10 state agencies and targets them toward children between the ages of 11 and 20 who are at risk of becoming parents as adolescents.

61. For example, the Too-Early-Childbearing (TEC) Network of programs has found that participants in their programs have substantially reduced subsequent birthrates, and have higher educational status one year postpartum than do women in local and national comparison groups. *TEC Network Newsletter*, Number 2, July 1984. For additional information and evaluation results, see B. Zuckerman, D. Walker, D. Frank, and C. Chase, "Adolescent Pregnancy and Parenthood: An Update," in *Advances in Developmental and Behavioral Pediatrics*, vol. VII (Connecticut: JAI Press, in press).

62. One difficulty is that even women who have full-time jobs that pay the minimum wage can be poor, depending on the size of their families. Therefore, even programs that successfully help teenage mothers obtain the education and training necessary for employment, and that place these mothers in jobs, do not guarantee that the families will be above the poverty line.

Current federal support of comprehensive service programs is largely limited to the Adolescent Family Life Program. Demonstration projects for pregnant adolescents and adolescent parents funded by this program must provide either a variety of services or access to such services, including a number of medical and nutritional services, as well as family planning, educational services on sexuality and family life, educational and vocational services, and adoption counseling.

Additional funding could be directed to develop comprehensive service programs in two ways. The first approach would expand the current efforts of the Adolescent Family Life Program. In 1985, the federal government funded approximately 40 comprehensive service programs directed solely toward adolescents who were pregnant or parents, at a cost of approximately $6.5 million. 63/ Current efforts could be doubled with an additional $6 million to $8 million.

A second approach would be to expand the role of the Office of Adolescent Pregnancy Programs in encouraging the development of comprehensive service programs by the states. For example, state efforts to develop programs in this area could be fostered by substantially increasing the levels of financial and technical assistance. Moreover, this office could serve as a clearinghouse for information on comprehensive service strategies for pregnant and parenting adolescents. Some states have already worked together to share their strategies, and federal aid could foster such efforts. 64/

Although these service programs are comprehensive, they nonetheless can focus on specific populations, types of services, or goals. Two types of targeted comprehensive service programs are discussed below. Either could be particularly effective in reducing the poverty of teenage mothers. The first works to prevent adolescents from dropping out of school through providing services that facilitate school attendance; the second works to provide comprehensive services to adolescent mothers on AFDC--a population at high risk of long-term dependency.

---

63. An additional 14 programs combining "care" services (directed toward adolescents who were pregnant or parents) and "prevention" services (directed toward all adolescents) were funded in fiscal year 1985 at $2.9 million.

64. For example, in March 1984, human services officials from 13 states met with representatives of the Ford Foundation, the Manpower Development Research Corporation, and the American Public Welfare Association in a Forum on Adolescent Pregnancy and Parenting Issues. The meeting discussed a number of state and local efforts in this area, and exchanged information and strategies.

Expand School-Based Services. Teenage parents are more likely to drop out of school than are their peers who have delayed childbearing. As a result, many of them have an inadequate education, which severely limits their future earning ability and, in turn, increases their likelihood of being poor. For example, one study found that although teenage mothers who completed high school were more likely to be receiving welfare than women who delayed childbearing, they were less than half as likely to be dependent on welfare than were those adolescent parents who had dropped out. 65/

School-based service programs that provide access to child care and to other supportive services can reduce dropout rates after pregnancy. 66/ Such services can be particularly effective for teenagers who have some motivation to continue their education, and who need services in order to be able to graduate. But access to services alone is inadequate for adolescents who drop out before their pregnancy, and for those who are underachievers or are unmotivated to attend school. Programs that work to help these adolescents resolve their initial difficulties with school are likely to be more effective in maintaining school attendance. Some argue that such programs must be made more intensive (and more comprehensive) in order to affect these underlying problems.

Even for highly motivated adolescent parents, access to child care and to other supportive services is necessary if they are to continue in school. A 1979-1980 national survey of the services for, and needs of, teenage parents found that child care was the most commonly reported unmet need. 67/ Such services can either be provided by the schools directly, or schools can serve as "brokers" of services--putting the teenage mother in contact with resources in the community and facilitating her use of those resources. Few

---

65. Moore, "Teenage Pregnancy and Welfare Dependency" (1978), p. 234.

66. For example, the St. Paul Maternal and Infant Care project found that a combination of a school-based clinic (providing comprehensive health and family planning services as well as pre- and postnatal services) and a school-based child care center resulted in a decrease in the dropout rate after delivery from 45 percent in 1973 to 10 percent in 1976. Edwards and others, "Adolescent Pregnancy Prevention in High School Clinics," p. 375.

    Teenage mothers in various comprehensive service programs appear to have higher educational status one year after giving birth than do women in comparison groups. Zuckerman and others, "Adolescent Pregnancy and Parenthood" (in press).

67. Helen W. Wallace, John Weeks, and Antonio Medina, "Services for and Needs of Pregnant Teenagers in Large Cities of the United States, 1979-80," *Public Health Reports*, vol. 97, no. 6 (November-December 1982), p. 587.

schools currently have such programs, as they have little incentive to initiate programs without strong leadership from educators and the federal and state government. 68/

The federal government could, either through increased funds for the Office of Adolescent Pregnancy Programs or through child care funding mechanisms, help schools and private organizations provide subsidized infant and toddler care (or access to subsidized child care) and other support services for teenage parents attending school. 69/ It could provide start-up funds, technical assistance, and training to schools to encourage them to provide comprehensive services, or to act as "service brokers." This could be targeted to schools in areas with high rates of teenage births and high dropout rates. Furthermore, additional financial assistance could be provided, on a matching rate basis, to cover operating costs for school districts that face financial difficulties in running such programs--for example, districts that have a large proportion of low-income students. Research and evaluation efforts could be a central part of any such funding to determine program effectiveness--particularly in the development of schools as service brokers, as little is known about the effectiveness of this strategy.

Proponents of this approach point to the previously cited evidence that both school-based and other programs providing special services to adolescent parents are associated with reduced dropout rates. Furthermore, they argue that adolescents come into contact with the school more frequently than with any other institution. Therefore, they maintain, schools are the logical place to locate efforts to minimize the negative consequences of adolescent childbearing, as well as to prevent adolescent pregnancy in the first place. They also believe that the federal government should take an active role in fostering service programs to ensure that most teenage mothers have access to education.

Opponents of school-based service programs believe that schools should not be engaged in providing such services to students, as they feel it detracts from the primary goal of the school system--which is basically academic training. They feel that school staff are not trained appropriately for such efforts, have sufficient responsibilities already, and may be less effective as educators if given additional responsibilities.

---

68. Gail L. Zellman, "Public School Programs for Adolescent Pregnancy and Parenthood: An Assessment," *Family Planning Perspectives*, vol. 14, no. 1 (January/February 1982), pp. 20-21.

69. See Chapter VI for a discussion of federal options in the area of child care.

Develop Comprehensive Services Linked to the AFDC Program. As discussed previously, adolescent parents on AFDC are particularly at risk of long-term poverty. Teenage parents who receive AFDC benefits are thus of particular concern--both because of the cost in terms of their quality of life, and the cost of current and future public expenditures to support them and their families.

The current role of welfare offices in referring clients to other agencies for services that are not provided through the AFDC system could be expanded. 70/ For example, all AFDC offices that serve at least some minimum number of adolescent mothers could be required to have at least one caseworker who specializes in the problems facing them. This caseworker would help adolescent parents obtain a range of necessary services--for example, subsidized care for infants and toddlers and dropout prevention services. Given that these clients are already being served, this requirement would merely represent a shifting of resources and would require minimal additional funds. 71/

Proponents of this approach point out that it would direct services toward those who are at the highest risk of long-term dependency, and would help these families become self-sufficient. They argue that it would be an efficient use of the current system of social services, as it would work to link adolescent parents to the current network. It would also, they suggest, encourage welfare offices to identify areas in which the services available to this population are inadequate--information that is currently not available.

Some opponents of this approach argue that it would increase federal involvement in state policy decisions, while others argue that targeting scarce services to adolescent mothers might require that they be withdrawn from other AFDC recipients who are also in need. Some of these latter opponents maintain that available services are limited, and that efforts should focus more on increasing overall services.

---

70. For example, there is currently a statutory requirement that all AFDC recipients and all sexually active minors in the AFDC household be offered (and provided access to) family planning services. Acceptance of family planning services is, however, to be entirely voluntary on the part of the recipient. There is no information as to the extent of state efforts in this area. It is thought that states may refer clients to clinics funded through Title X or the SSBG. See the Social Security Act, Title IV, Section 402 (a)(15).

71. Some additional funds could be necessary for initial training.

CHAPTER VI

OPTIONS TO IMPROVE EMPLOYABILITY

The long-run well-being of children in poor families depends heavily on the ability of adults in those families to obtain jobs that pay adequate incomes. Family members who are able to work might not possess appropriate labor market skills and might have difficulty arranging for child care. This chapter presents options for meeting each of these needs, first addressing issues of employment and training, and then turning to the question of child care.

EMPLOYMENT AND TRAINING

The federal government currently spends about $4 billion a year on employment and training programs for people in low-income families. Most of the funds go to programs authorized by the Job Training Partnership Act of 1982 (JTPA), which provides economically disadvantaged people, including welfare recipients, with training and other assistance intended to increase their employability and future wage rates. The federal government also provides such services through the Work Incentive Program (WIN), which is specifically focused on recipients of Aid to Families with Dependent Children (AFDC). Finally, the Targeted Jobs Tax Credit (TJTC) subsidizes the wages of several groups of disadvantaged workers, including welfare recipients.

Rather than directly raising the standard of living of children and their families (as is the case with cash or in-kind transfers), employment and training programs are intended to do so indirectly by making the adults more attractive to employers, thereby raising their long-term earnings. In short, it is an investment strategy.

The key issue is whether the investment will pay off. Benefits of the investment could be in the form of immediate or long-term increased employment and earnings for participants. A related benefit would be to reduce the participants' dependence on welfare. The increased employment of the participants would not necessarily reflect increases in total employment, however. One result of an employment and training program could be that employers might substitute the participants for other workers--that is, reorder hiring queues. 1/ Even if total employment were not increased, though, it might be desirable to redistribute job opportunities toward members of poor families with children. 2/

Another critical issue is whether to use employment and training funds to provide each of a large number of poor parents with a small amount of assistance or, alternatively, to concentrate the funds on a small number of people. Resolving this issue would help to determine which people to serve, as well as how to assist them. Individuals with severe problems might require more expensive assistance than others. Similarly, there is evidence that intensive--and expensive--employment preparation activities are more likely than other approaches to result in lasting earnings gains for program participants. Given the large number of poor people unable to find work and the tight budgetary environment, this is an especially difficult issue to resolve.

In addition to employment and training programs, the federal government might expand employment opportunities for some members of poor families with children by removing barriers to their employment. For example, government regulations that prohibit employers from offering lower wages could be relaxed or eliminated. The basic trade-off with respect to poor families is that expanding the number of low-paid jobs this way might also reduce the earnings of previously employed parents whose wage rates could fall. Discrimination by employers is another barrier limiting job opportunities for some people. Reducing discrimination

---

1. Longitudinal data on the employment and earnings experiences of program participants and comparable nonparticipants have been used to estimate the effects of employment and training programs on the participants. For example, see the Congressional Budget Office and National Commission for Employment Policy, *CETA Training Programs--Do They Work for Adults?* (July 1982). These data, however, cannot indicate whether (or to what extent) gains in employment and earnings for the participants were at the expense of losses to nonparticipants.

2. Reordering the hiring queue might be worthwhile, for example, to reduce the chances that those people who have been jobless for a long time might become increasingly less employable--either because potential employers would be deterred or because the individuals would lose skills, work habits, or motivation. The evidence on this "scarring" phenomenon is inconclusive. See, for example, National Commission for Employment Policy, "Expanding Employment Opportunities for Disadvantaged Youth," *Fifth Annual Report* (1979), pp. 68-69.

involves equal employment laws and both private and public efforts to enforce them. 3/

Two sets of options are examined in this section. The first would increase the employability of members of poor families with children by expanding their training opportunities--either through the JTPA or through a new program. The second would increase their employment opportunities--either through a targeted employment subsidy or through other policies that could increase total employment for low-wage workers, such as a reduction in the minimum wage.

An issue not addressed in this chapter is whether to require welfare recipients to participate in employment and training activities as a condition of eligibility for AFDC. An option to require all states to implement workfare for employable AFDC recipients is discussed in Chapter III.

Increase Training Opportunities for AFDC Recipients

Title II-A of the JTPA authorizes block grants to states to provide training services for disadvantaged youth and adults. It requires that AFDC recipients be served on an "equitable" basis--that is, in proportion to their share of the total eligible population. The program is operated locally with funds from the federal government and in accordance with rules concerning eligibility criteria, permissible activities, and other matters specified in the legislation. Data for the first nine months of the program's existence (October 1983 through June 1984) indicate that approximately 120,000 (or 20 percent) of the 600,000 participants served were AFDC recipients. In the current fiscal year, grants to states authorized by Title II-A are expected to total $1.9 billion, providing 1.2 million disadvantaged individuals with training and related services.

Expand Job Training Partnership Act. One option for increasing employment and training assistance for members of poor families with children is to increase total funding for JTPA training, with the increment earmarked for AFDC recipients. For example, with no changes in per participant costs, adding $100 million to the block grant program would permit at least an additional 50,000 AFDC recipients to participate, an increase of over 40 percent. 4/

---

3. It would be difficult to measure the effects on the incomes of poor families with children that might result from additional expenditures on anti-discrimination activities.

4. The average cost is about $1,600 per participant. It is likely, however, that the cost per AFDC recipient would be higher.

Based on analyses of the training programs for adults authorized under this program's predecessor--Title II-B of the Comprehensive Employment and Training Act (CETA)--there is reason to anticipate that the earnings of participants with little previous work experience would be increased. For example, one study concluded that CETA increased by about $2,500 per year the earnings of women who had no recorded work experience during the preceding five years, double the gains for similar women with some work experience. 5/ It is possible, however, that some of the increased earnings for program participants is the result of differences in motivation between them and nonparticipants.

A related option would be to encourage program operators to provide more intensive training and other employment preparation. Experience under CETA suggests that gains in earnings are likely to be positively related to the length of training. Thus, giving additional incentives to program operators to enroll AFDC recipients with limited work histories, and to provide recipients with supportive services (especially child care) and longer courses, might increase the net impact of the program, but at higher costs per participant.

The major argument in favor of expanding JTPA funding for members of poor families with children is that it offers a means of helping some of them to increase their long-term earnings, thereby improving the well-being of participants and their families, while reducing future welfare costs. The major argument against doing so is the cost, although some are concerned about the effectiveness of the program as well. In addition, given that JTPA is a new program, it can be argued that expansion should be delayed until its effectiveness has been demonstrated. Moreover, local program operators were quite critical of the frequent changes in JTPA's predecessor and have welcomed a period of stability in the new program.

Develop a Program of Closely Supervised Work Experience. Another option is to develop a new national program that would provide closely supervised work experience for AFDC recipients. This option would be the most costly per participant because it is aimed at increasing the long-term employment and earnings of AFDC recipients who require more assistance than is being provided through JTPA. The National Supported Work Demonstration provided strong evidence that a carefully constructed, intensive program of

---

5. Congressional Budget Office and National Commission for Employment Policy, *CETA Training Programs--Do They Work for Adults?* (July 1982), p. 26. In this analysis, individuals were classified as having had "some work experience" if they had any earnings reported to the Social Security Administration between 1970 and entry into the program four or five years later. The average federal cost per participant in CETA training programs in 1980 was about $2,400. The majority of women's earnings gains were due to increases in the amount of time worked rather than to increases in their wage rates.

supervised work experience can be effective in increasing the earnings of women who are long-term AFDC recipients.

To be eligible for this demonstration program, an individual had to have been on AFDC continuously during the preceding three years and to have spent no more than three of the past six months in a regular job. Participation was limited to women whose youngest child was at least age six. Most of the participants had not had a full-time job for at least two years (if ever), were members of a minority group, and had not graduated from high school.

The program consisted of an average of nine months of closely supervised work experience in which the demands on the participants and the standards of performance were steadily increased until they were similar to those of normal low-skilled jobs. This training resulted in substantial improvement in the post-program earnings of the participants. For example, over a year after leaving the program, the average earnings of participants were almost 50 percent higher than those of a similar group who had not participated: $248 per month compared with $168 for the control group. Moreover, the program participants were receiving $56 less from welfare and food stamps than were members of the control group. [6]

Given the high cost of this training (over $8,000 per participant) and the rules and incentives under which JTPA operators function, it is unlikely that it could be provided through the regular JTPA delivery system. It could, however, be authorized as a separate national program, analogous to the Jobs Corps, which provides intensive training and related services to severely disadvantaged youth.

Such an option could make a substantial difference in the lives of the participants and their families by increasing their long-term earnings and reducing their dependence on welfare. Drawbacks of this approach are its cost and the difficulty of starting a new program. The costs per participant were much higher than those of JTPA and other programs. Thus, for a given outlay, far fewer people could be served. For example, the illustrative $100 million JTPA outlay discussed above would serve only 12,500 in Supported Work compared with at least 50,000 under JTPA. Moreover, it is not known whether the positive impacts estimated in the demonstration project could be replicated if it were implemented on a larger scale. Therefore, if this option were chosen, a gradual buildup would be prudent.

---

6. Stanley Masters and Rebecca Maynard, *The Impact of Supported Work on Long-Term Recipients of AFDC Benefits* (New York City, New York: Manpower Demonstration Research Corporation, 1981), pp. 65 and 113.

Increase the Demand for Low-Paid Labor

An alternative approach is to increase job opportunities for AFDC recipients by subsidizing their wages or by removing barriers that prohibit employers from offering lower wage rates. This approach focuses on the demand side of the market, rather than on directly increasing skills.

Targeted Jobs Tax Credit. The TJTC provides private employers with a tax incentive to hire economically disadvantaged youths, recipients of specified cash transfer programs (including AFDC, Supplemental Security Income (SSI), and general assistance), and members of other designated groups. The maximum credit per subsidized worker is $3,000 for the first year of employment (50 percent of up to $6,000 in wages) and $1,500 for the second year (25 percent of up to $6,000). 7/ In 1984, the average revenue loss per program participant--and, hence, the average net saving to employers--was between $700 and $1,000. 8/ Under current law, the credit will be unavailable for workers hired after December 31, 1985.

One option for the Congress would be to reauthorize the TJTC subsidy for AFDC recipients. 9/ This subsidy would encourage employers to hire members of this group. Moreover, to the extent that the subsidized workers' gains in earnings were not fully offset by higher taxes and lower transfer receipts, their incomes would be increased. If one-third of the subsidized jobs were assumed to be net gains for the target group, then the cost for each job created would be between $2,000 and $3,000. 10/

---

7. Because the tax deduction for wages paid by an employer is reduced by the amount of the credit allowed, the net saving to an employer (and, consequently, the tax expenditure) is less than the credit.

8. Data from a 1981 survey indicated that the average TJTC-subsidized job held by youth lasted only 15 weeks and paid approximately the minimum wage. Thus, the wage for which a credit could be claimed would be about $2,000 and the credit would equal $1,000. The revenue loss would then depend on the employer's tax bracket. No information is available on job duration and wage rates of TJTC-subsidized adults. It is likely that their wages would be higher.

9. Current regulations define eligible recipients as individuals who continually received AFDC payments during the 90 days immediately prior to being hired or who were hired through the Work Incentive Program.

10. Congressional Budget Office, "The Targeted Jobs Tax Credit" (Staff Memorandum, May 1984).

The amount of forgone federal revenues attributable to the TJTC in 1985 (the last full year for which TJTC is authorized) will be approximately $400 million. Since AFDC recipients account for about 15 percent of all subsidized workers, the revenue loss for this group would be about $60 million, assuming that the average for AFDC recipients equals that of all TJTC-subsidized workers. 11/

If the Congress wanted to increase the use of TJTC or another employment subsidy targeted toward adults in poor families with children, it could either broaden the eligibility criteria or increase the incentive provided to employers. The criteria could be changed, for example, to encompass all low-income adults, all members of poor families with children, or all people in families eligible for AFDC rather than only the recipients. Any of these changes would increase the size of the eligible population and would probably increase the willingness of employers to participate. Incentives could be increased by raising either the $6,000 wage ceiling or the percentage of covered wages for which a credit could be claimed. Other methods to increase use of the credit would involve making it refundable, expanding the number of eligible employers to include public-sector and nonprofit organizations, and increasing outreach efforts by the Employment Service. 12/

The employment subsidy approach, however, has one major limitation: although it lowers the cost to employers of hiring workers, it does not necessarily increase the subsidized workers' skills. Thus, it is not likely to be useful for adults who have severe labor market handicaps. Moreover, there is no information available about whether the work experience that participants gain increases their subsequent employment and earnings. In addition, the cost of an employment subsidy that operates through the tax system is difficult to control and, in fact, the subsidy may be paid to employers for hiring individuals they would have hired anyway. It also makes the tax code more complicated, although it is easier for employers to use it than to deal with a separate program.

---

11. No information is available for separately identifying the tax expenditures made for each recipient group.

12. Low participation by employers has been a persistent problem in the operation of targeted employment subsidies. In 1982, for example, only about 10 percent of firms used TJTC. There is some evidence that job seekers are reluctant to inform prospective employers of their eligibility for a subsidy because this information might stigmatize them. If firms not now using TJTC were contacted by the Employment Service, told about how the program works, and asked to accept program referrals, the Congressional Budget Office estimates that up to one-third of these firms could be persuaded to do so. See Congressional Budget Office, "The Targeted Jobs Tax Credit" (Staff Memorandum, May 1984).

Remove Barriers to Employment. Another way of lowering the cost to firms of hiring low-paid workers is to remove barriers that prohibit employers from offering lower wage rates. One prominent example of such a barrier is the minimum wage established by the Fair Labor Standards Act. 13/ A reduction in the minimum wage (currently $3.35 per hour) would likely increase total employment at no cost to the federal government. Additional members of poor families with children presumably would find jobs as a result of the increase in demand. In that sense, a reduction in the minimum wage is analogous to an employment subsidy.

The additional jobs created by this approach would be likely to increase the incomes of some families. The incomes of others would likely decrease, however, as a result of the reduction in wage rates of some who already have jobs at the minimum wage. It is not clear what the net effect would be on poor families with children. 14/

Moreover, targeting specific groups with this approach is more difficult than it is with employment subsidies such as the TJTC. One option that has many advocates is to introduce a youth differential into the minimum wage legislation. This could, however, reduce job opportunities for adult welfare recipients and other adults with low incomes.

CHILD CARE

Access to affordable, adequate child care is essential in order for some low-income families--particularly those headed by a single parent--to be able to work. Furthermore, adequate child care (whatever its form) is important for the well-being of children whose parents must work. 15/ Parents who do

---

13. Other examples of federal legislation that tend to maintain wage rates higher than might otherwise be paid include the Davis-Bacon Act, the Walsh-Healey Public Contracts Act, and the Contract Work Hours and Safety Standards Act. Each of these laws regulates the wages that certain federal contractors must pay. No information is available concerning their effects on the incomes of poor families.

14. An extensive review of the Fair Labor Standards Act was conducted by the Minimum Wage Study Commission. Their findings appear in a seven-volume report, *Report of the Minimum Wage Study Commission* (May 1981). Research on the effects of the minimum wage on employment is reported in Volume V. Research on its effects on poverty and on the distribution of income is reported in Volume VII.

15. Although child care is presented in this section as a service that helps low-income families become self-sufficient, it may also be important as a mechanism to provide developmental and educational experiences to young children. This latter focus is not discussed extensively in this section.

not have access to adequate child care services must make a difficult choice. They can either stay at home with their children, thereby reducing their ability to work and their income (and increasing their likelihood of dependency), or they can work, in which case they must place their children in inadequate care or leave the children to care for themselves.

In recent years, as women with children have entered the workforce in increasing numbers, the demand for child care services has increased dramatically. In 1970, for example, 39 percent of children under the age of 18 had mothers who worked; by 1984, this proportion had risen to almost 56 percent. Moreover, many women with very young children now work. In 1984, 48 percent of children under six years of age had working mothers, and almost half of all married women with children aged one year and under were employed. The increase in labor force participation has been most dramatic among married mothers, rising from 40 percent in 1970 to 59 percent in 1984. Furthermore, more than 70 percent of employed mothers work full time. 16/

Information about the supply and use of child care services is, however, less clear. Because the child care system in the United States is diverse and fragmented, such data are difficult to collect. For example, child care can take a number of different forms--including center-based child care, family day homes, a relative or friend who comes to the home, and school-based care. Moreover, families frequently use more than one of these forms. The collection of comprehensive data is made still more difficult by the wide variation in the level of regulation for child care programs (both among different forms of child care and among geographic areas). It appears that most children are cared for in unregulated settings, which makes data particularly hard to collect.

Although comprehensive national data on the use of and need for child care are not available, local and statewide studies provide information on the problems some families face in trying to obtain acceptable child care. Three factors can limit access to child care: inadequate supply of services, inadequate knowledge about available services, and inability to pay for services. Any one of these factors can make it difficult for families to obtain child care--and some families are likely to face difficulties in more than one area. For example, an adequate supply of child care is useless if the care is not affordable or the parents do not know about it. Because of the previously mentioned inadequacies in the data, it is difficult to determine which (if any) of these factors is of paramount importance. It

---

16. Howard Hayghe, "Working Mothers Reach Record Number in 1984," *Monthly Labor Review*, vol. 107, no. 12 (December 1984), pp. 31-33.

seems likely, however, that they are of varying importance for different families and in different geographic areas.

Some mothers report that inadequate child care has limited their participation in the labor force; this is particularly the case for those who are young, black, single, poor, and less educated. 17/ Parents also report in national and local surveys that they would work more if they had access to acceptable child care. For example, a 1982 Bureau of the Census survey found that 26 percent of those mothers who were not in the labor force said that they would be looking for work if they could find satisfactory and affordable child care--a percentage that rises to 36 percent of those women whose annual income is below $15,000, and to 45 percent of single mothers. Furthermore, 21 percent of mothers who worked part-time said they would work more hours per week if they could find such care. 18/

Critics have argued, however, that these studies do not accurately measure the number of parents who would actually work if child care were available; they argue that the information is self-reported, and attitudes do not necessarily reflect behavior. They maintain, therefore, that there is no evidence that participation in the labor force is hampered by inadequate child care. 19/

---

17. Harriet B. Presser and Wendy Baldwin, "Child Care as a Constraint on Employment: Prevalence, Correlates, and Bearing on the Work and Fertility Nexus," *American Journal of Sociology*, vol. 85, no. 5, (1980), pp. 1202 and 1205. See also U.S. Commission on Civil Rights, *Child Care and Equal Opportunity for Women*, Clearinghouse Publication No. 67 (June 1981).

18. Department of Commerce, Bureau of the Census, *Child Care Arrangements of Working Mothers: June 1982*, Current Population Reports, Special Studies Series P-23, No. 129, pp. 15-19. This figure includes only those women who have a child under five years of age.

    Other surveys, done at the community level, have similar results. For example, a study in Maine found that 23 percent of the parents surveyed reported that they had been prevented from taking promotions, were forced to quit their jobs, or were unable to continue training or education as a result of problems with child care in the past five years. Moreover, 27 percent of nonworking parents surveyed said they would definitely work, and 18 percent of working parents said they would definitely work more, if they were able to obtain adequate, affordable child care. Report and Recommendations of the Maine Child Care Task Force, "Child Care in Maine: An Emerging Crisis" (report submitted to the Maine Department of Human Services and the Maine Department of Educational and Cultural Services, November 1984), p. 88.

19. For example, the Deputy Assistant Secretary for Social Services Policy at the Department of Health and Human Services said in 1984 that there was no clear evidence that a lack of child care prevented women (especially welfare mothers) from working, and that

Additional surveys, most done on the state or local level, have found that some families are dissatisfied with the care they use--usually because of its cost or quality. 20/ Other studies have found that many centers have waiting lists, indicating an inadequate supply of affordable or acceptable center-based care. 21/

Finally, the "latchkey" phenomenon, where young children are left alone to care for themselves or in the care of slightly older siblings, has been of much public concern recently. Once again, data on such children are inadequate, and estimates of the number of children who care for themselves range widely. 22/ Several local surveys found evidence of children in self-care. The School-Age Day Care study, for example, estimated that one-fourth of school-age children of working parents in Minnesota and Virginia cared for themselves regularly. 23/ A 1983 survey of families in Montgomery County, Maryland, found that 21 percent of all parents reported that they regularly left their children below the age of 14 either alone or in the care of siblings (also under the age of 14). At the same time, 42 percent of all households where all adults worked full time reported that they left their children in self- or sibling-care. 24/ Although

---

there is no evidence of a shortage of affordable child care. Select Committee on Children, Youth, and Families, *Families and Child Care: Improving the Options* (September, 1984), p. 32.

20. The Oakland Community Child Care Impact Committee, "Report of the Oakland Community Child Care Impact Committee" (October 9, 1984), Appendix, pp. 11-12. Note, however, that it is difficult to get accurate data on parental dissatisfaction, as parents who are unhappy with the quality of the child care they use are often unwilling to admit their concern.

21. For example, a survey in Oakland, California, found that two-thirds of its centers have waiting lists, and the Governor's Day Care Partnership Project in Massachusetts found that families on waiting lists have to wait on average from six months to a year. See "Report of the Oakland Community Child Care Impact Committee," p. 38; and the Governor's Day Care Partnership Project, "Report Submitted to Governor Michael S. Dukakis" (October 1984), p. 3.

22. Select Committee on Children, Youth, and Families, *Families and Child Care: Improving the Options* (September, 1984), p. 24.

23. Department of Health and Human Services, *School-Age Day Care Study: Final Report* (March 15, 1983), p. 6.

24. Montgomery County Department of Family Resources, *A Study of Needs and Resources for Child Day Care in Montgomery County* (September 1983), pp. iv, 19, 20, and 26. The percentages also varied along other dimensions. For example, of those parents reporting that they left their children in self- or sibling-care, none did so with children under 6 years of age, 17 percent left children between 6 and 8 years of age in self- or sibling-care, 30 percent used this form of care for 9 to 11 year olds, and the rest had children who were 12 or 13 years old.

the data on the number of latchkey children from the various state and local surveys are not comparable, many of the estimates fall between 14 percent and 21 percent of all children of working parents. 25/

If the federal government decides to facilitate the self-sufficiency of low-income families by expanding their access to child care services, three strategies are available:

- Expand the supply or availability of child care;
- Broaden knowledge about the available resources; and
- Lower the cost of the services.

Options for each approach are discussed separately in the remainder of this chapter, although many alternatives would employ more than one strategy. 26/ For each of the following options, federal efforts could be targeted to areas of particular concern. They could focus on the access to child care services for different age groups of children (infant care, preschool care, or school-age care); on different locations (in-home care, family day homes, center-based care, or school-based care); or on different populations of parents (teenage mothers, families with a wage earner in training, or single-parent families). All three strategies would be pursued through direct spending programs, while the income tax system could be used to enhance demand for privately supplied services by lowering the costs of care.

Options to Increase the Supply of Child Care Programs

The federal government could provide funding to states and nonprofit organizations to encourage the development of affordable child care programs that serve children in moderate- and low-income families. Such grants could be used to:

- Provide incentive grants for the development and operation of targeted child care programs; and

---

25. These surveys are not easily compared. They examine slightly different age groups, have different definitions of "regular" care, and use different methodologies, thus making it difficult to develop an accurate estimate of the number or proportion of latchkey children.

26. Some of the options directed toward increasing the supply of child care would also affect the affordability of the care and knowledge about the care. The options in each area are likely to have effects on the other areas as well.

- Fund umbrella organizations that would provide training, monitoring, financial assistance, resource sharing, and other benefits to providers of family day home services.

Some general arguments apply to both of these approaches. Their proponents believe that there is an inadequate supply of affordable child care programs for low-income parents and that federal action should be taken to foster the development of such programs. They argue that it is in the federal government's interest to fund such programs, as they allow low-income families to become productive and self-sufficient and can provide important developmental experiences for poor children. Some opponents do not believe that there is sufficient proof of a shortage of adequate and affordable child care and therefore feel that federal action is unnecessary, especially in a time of federal budget stringency. Other critics maintain that these grant programs would result in unevenly distributed programs, since not all states would take advantage of federal aid.

Provide Incentive Grants for the Development and Operation of Targeted Child Care Programs. The federal government could foster the development and operation of targeted child care programs by funding grants for child care. The 98th Congress authorized (but did not appropriate) $20 million in 1984 for a grant program which included $12 million for the development of school-age child care services, as well as an additional $8 million for dependent care resource and referral agencies. 27/ The federal government could authorize and appropriate additional funding for this program, and could extend the program to include other forms of child care.

Such grants could be used to promote child care programs that meet specific child care needs: for example, infant and toddler care programs for teenage mothers to allow these parents to attend school, programs for low-income handicapped children with working parents, or after-school programs for latchkey children. Furthermore, in order to target the grants toward services for low-income communities and families, grants could be extended to provide matching funds for the operating costs of programs serving predominantly low-income families; they could reduce the costs of care for low-income families by requiring that the child care programs have sliding-fee scales; and they could require that a certain number of subsidized slots be available. These programs would then be available for those parents eligible for subsidies under other federal and state programs, as well as for those low-income parents who do not fit the particular categorical and income eligibility requirements of each state.

---

27. This program is called the Grants for States for Planning and Development of Dependent Care Programs. More information on resource and referral agencies is presented later in this section.

A related option would be to give states financial and technical assistance to develop partnerships between the private and public sectors to improve the supply of child care for low-income families. The Texas Corporate Child Development Fund is an example of such a partnership. This option could encourage corporations and businesses to contribute to the development of child care programs in low-income areas.

Promote the Development of Umbrella Organizations for Family Day Home Providers. Family day care is one of the most common forms of child care in the United States. Although comprehensive data about this type of child care are scarce, in part because the majority of such homes are unregulated, the National Day Care Home Study estimated that 5.2 million children were being cared for in 1.8 million family day homes in the late 1970s. 28/

Family day care associations and umbrella organizations have developed in some communities. They provide resources (such as eligibility for the federal Child Care Food Program) and support services to registered or licensed providers. These organizations can provide training, quality monitoring, health insurance coverage, low-interest loans, and other benefits to family day home providers. 29/ They also give providers of family day care an incentive to become licensed or registered.

The federal government could encourage the development of such organizations by providing funding for the start-up costs and costs of operation of umbrella organizations, as well as by providing technical assistance, information, and training. Proponents of this option suggest that umbrella organizations make the provision of family day care services more attractive to potential providers and thereby increase the supply of programs, as well as improve the quality of care provided to the children. They also point out that these organizations provide minimal monitoring of

---

28. Patricia Devine-Hawkins, *National Day Care Home Study: Family Day Care in the United States* (Washington, D.C.: Government Printing Office, 1981). Some states require family day homes to be licensed, which generally involves compliance with health and safety standards. Other states simply require home registration, which generally does not require any compliance with standards.

29. Fern Marx, *Child Care* (a paper prepared for the American Public Welfare Association Conference at Wingspread in Racine, Wisconsin, October 1984), p. 38. An example of such a program is the Family Day Care Association in Hennepin County, Minnesota, which had a membership of 900 family day home providers in 1983. It offers a number of services to its providers, including shared resources, insurance coverage and legal assistance. Marx points out that, while the services offered by this program are exceptional, this model also shows the potential of such organizations.

quality and safety for member homes. For example, monitoring is frequently provided by the home's membership in the Child Care Food Program (CCFP), which involves approximately three visits each year and focuses on compliance with CCFP nutritional requirements rather than quality of care. Such organizations, however, might increase the degree of regulation of family day homes, which some oppose because they believe it would increase the cost and reduce the availability of care.

Options to Improve Knowledge About Available Child Care Resources

Resource and referral (R&R) agencies collect information about the child care resources available in the community and provide this information to parents, thereby helping them become knowledgeable consumers of child care. Furthermore, such agencies can be used to identify the child care needs of the community, since the relationship between requests and referrals can show areas of unmet demand. This information enables policymakers and providers to respond by developing carefully targeted child care programs. In recent years, a number of states and localities have supported the development of R&R agencies. For example, California has funded a statewide network of R&R programs, and other localities and private organizations have become involved in similar efforts.

The federal government could foster the development of such programs by authorizing and appropriating additional funding for the resource and referral portion of the previously mentioned Grants for States for Planning and Development of Dependent Care Programs. 30/ The program could also be expanded to provide matching funds for the operating costs of referral programs that serve low-income communities.

Proponents of such programs think that R&R agencies are beneficial because they can increase the efficiency of the day care system. Furthermore, they argue that financial assistance is particularly necessary for those communities that are unable to support such a service with their own resources. Some opponents maintain that federal funds should be concentrated on expanding the available supply of child care, particularly for low-income families, and therefore should instead be spent on direct delivery of services. Others maintain that the private sector should be primarily responsible for developing new R & R programs.

---

30. The resource and referral portion of the program is currently authorized at $8 million.

Options to Improve the Affordability of Child Care for Low-Income Families

Child care costs can represent a substantial portion of a family's budget, particularly for low-income families or families with large numbers of children. The costs of child care can vary widely, as they depend on the age of the child, the type of child care, the length of time in care, and the geographic area. Generally, care is more expensive for younger children (particularly infants), and center-based care is more expensive than family day home care. Estimates of average annual child care costs range from $2,000 to more than $6,500--costs that can be prohibitive for low-income families. 31/

The federal government could affect the affordability of child care through two primary mechanisms: the Social Services Block Grant (SSBG) and the dependent care tax credit. 32/ First, state and federal governments have traditionally provided financial assistance to low-income families (within certain eligibility guidelines) for their child care costs. Prior to 1981, Title XX was the primary source of federal funding for subsidized child care. Although states were required to set aside only $200 million of Title XX funds for child care, an estimated 18 percent (or approximately $720 million) of total Title XX expenditures went to child care in 1980. 33/

---

31. The following estimates show average annual child care costs based on local surveys. In Oakland, California, the average annual cost for center-based preschool care is $2,800; for center-based infant care, $4,200; and for licensed family day homes, $2,600. In Massachusetts, the annual costs for preschool care average $3,500; for infant care, more than $5,000. In Minnesota, annual average costs for preschool care are $1,900; for infant care, $5,600. Other estimates are cited in Select Committee on Children, Youth and Families, *Families and Child Care* (1984), pp. 6, 7, and 29. The cost of child care is related to the issue of the quality of the care. Quality has been found to be associated with small group size, high staff/child ratios (found to be particularly important for infants), and staff qualifications. Richard R. Rupp, *Children at the Centers: Final Report of the National Day Care Study*, Executive Summary (Cambridge, MA; ABT Books, April 1979), pp. 2-4.

32. Child care costs are also subsidized indirectly through AFDC and Food Stamps. Expenditures for child care are taken into account in calculating benefit levels in each program. See Chapter III (AFDC) and Chapter IV (Food Stamps) for further details.

33. U.S. Department of Health and Human Services, Office of Human Development Services, *Report to Congress: Summary Report of the Assessment of the Current State Practices in Title XX Funded Day Care Programs* (October 1981), p. 17.

Under the Omnibus Budget Reconciliation Act of 1981, Title XX was combined with other programs to form the SSBG, and its funding levels were reduced by 20 percent. 34/ Furthermore, this legislation eliminated the set-aside funding for child care, the income guidelines for eligibility, and the state funds matching requirement, and it reduced the state's reporting requirements. Although no national data are available because of the latter change, studies by the General Accounting Office and the Urban Institute found that a majority of the states sampled have reduced their expenditures on subsidized child care as a result of the budget reductions of 1981. 35/ The states generally maintained funding levels for crisis services, such as child abuse protective services and adoptive and foster care services. 36/

The second federal mechanism that affects the affordability of child care is the dependent care tax credit. Families that use child care to enable adults to work (or the spouse of a worker to go to school) currently qualify for a nonrefundable tax credit based on the costs of that care. 37/ The credit applies to the first $2,400 spent for one child or $4,800 for two or more children. Taxpayers with adjusted gross incomes (AGI) of $10,000 or less can take a credit equal to 30 percent of allowable child care costs. The credit rate is reduced as income rises, to a minimum of 20 percent for those with an AGI above $28,000.

The child care credit was enacted in 1976, replacing a similar deduction. Making the provision a credit made it available to taxpayers who do not itemize as well as to those who do, thus increasing its value for many lower-income taxpayers. The credit remained essentially unchanged until 1981, when it was increased and targeted more toward lower-income taxpayers. Since 1981, there have been only minor changes in the credit.

---

34. The Omnibus Budget Reconciliation Act of 1981 reduced the funding level of the SSBG from $2.99 billion in 1981 to $2.40 billion in 1982.

35. Madeleine Kimmich, "Children's Services in the Reagan Era" (Discussion Paper, Urban Institute, Washington, D.C., October 1984), p. 35 (to be published in June 1985). General Accounting Office, *States Use Several Strategies to Cope with Funding Reductions Under Social Services Block Grant* (August 9, 1984), p. iii.

36. Ibid., GAO, p. iv, and Kimmich, p. 50.

37. To qualify, a single parent must work; married couples must have at least one full-time worker and the spouse must work at least part-time or go to school. The children for whom child care is used must be claimed as tax dependents, and either be under 15 or be physically or mentally incapacitated. This credit may also be used for handicapped adult dependents.

In 1982, just over 5 million taxpayers claimed the credit; revenue losses totaled slightly over $1.5 billion, about $300 per claimant. 38/ More than half of the families using the credit had incomes above $25,000. Only 6 percent of those claiming the credit had incomes below $10,000, and for these low-income families, tax savings averaged $256. Because its nonrefundability means that families can benefit only to the extent of their tax liability, the credit provides only limited assistance to the poor. Nearly 60 percent of families with incomes below $10,000 benefited by less than the full potential value of the credit in 1982. 39/

Options that would affect the affordability of child care through both direct and indirect means could:

- Reestablish the Social Services Block Grant set-aside for child care for low-income families; and

- Modify the dependent care tax credit.

Earmark Social Services Block Grant Funds for Child Care. The federal government could reinstate the $200 million set-aside for child care in the SSBG. The states could then use these funds to develop programs for any of the specific groups that are of concern--for example, school-age children, adolescent mothers, or low-income families. 40/

If the set-aside for child care were created with no additional funding for the SSBG, it could increase expenditures on child care without increasing costs for the federal government. It would also, however, require that

---

38. Preliminary figures for the 1983 tax year indicate a large increase in both participation and credit amounts, possibly as a result of changes in regulations. In 1983, taxpayers using Form 1040A were allowed for the first time to claim the credit. In addition, taxpayers taking the credit were not required to identify child care providers. There may also have been some lag in taxpayers' taking advantage of 1981 tax law changes, which made the credit more accessible to low- and middle-income families. The effect appears to have been about a 30 percent increase--to 6.4 million--in the number of tax returns claiming the credit and a one-third rise--to $2 billion--in revenue losses.

39. The child care credit is applied before the earned income tax credit (EITC); therefore its value is not limited by the EITC. The child care credit can be used to reduce gross taxes owed, but only down to zero. The EITC is then applied, if applicable, and is refundable. See Chapter III for further discussion of the EITC.

40. The Congress earmarked a $25 million increase in SSBG funding for fiscal year 1985 to provide training for child care staff, licensing and enforcement officials, and parents, with the proviso that states conduct criminal checks on day care employees.

states draw funds away from other important social services provided by the SSBG, such as protective and crisis services for abused children, adoption and foster care services, adult protective care, and home-based services.

Another approach would be to expand funding for the SSBG and require that the additional funds be used only for child care services. Such an expansion could be set at any level the federal government might choose; for example, an additional $200 million could reinstate the previous set-aside, although it is not clear that this amount would be sufficient to return state child care expenditures to their previous levels. This kind of legislation could require a maintenance-of-effort clause to ensure that the new funds would be added to current state day care funding levels, instead of being used to substitute for them. This option would increase the states' ability to provide subsidized child care to low-income families without drawing funds away from other social services provided under the SSBG; at the same time, it would raise federal costs.

Proponents of these approaches argue that there is an inadequate supply of affordable child care for low-income children, and maintain that the federal government has a responsibility to ensure that such care is available. They suggest that it is appropriate to use the SSBG to provide such care, since it has traditionally been the major source of federal funding for child care. Moreover, they argue that such services are cost effective, because they allow families to work and be self-sufficient. Opponents argue that no evidence exists of a shortage of such care. Moreover, they believe that earmarking the SSBG would reverse the block grant process and reduce the states' discretion in determining social service priorities.

Modify the Dependent Care Tax Credit. Three approaches could be taken to increase the assistance to families with children provided through the dependent care tax credit. First, the entire credit rate schedule could be raised so that the percentage of child care expenses allowed as a tax credit would be higher for all taxpayers. Second, to hold down the cost of increasing aid, the rate schedule could be tilted so that the percentage of expenses allowed as a credit would be higher for low-income families but reduced--perhaps to zero--for higher-income families. Reduced benefits for those with high incomes would partially offset the higher costs of increasing the credit for low-income families. Third, the credit could be made refundable, with or without changing the percentage rate. This approach would allow all families, regardless of other tax liability, to receive the full value of the credit.

Increasing the credit for low-income families would reduce their net child care expenses, thereby making employment more attractive by raising earnings net of expenses and making schooling more attractive by lowering costs. In turn, through employment and schooling, low-income families could become less dependent on government transfers and other assistance.

Options that would make the credit refundable would strengthen employment and education incentives even more by removing tax liability as a limit on the value of the credit. Because the current credit is not refundable, a married couple with two children would have to have an income above $17,556 to obtain the full potential value of the credit--the percentage credit times the maximum allowable child care expenses. 41/ Making the credit refundable would allow all families to receive a percentage of their child care costs up to the allowed maximum. On the other hand, even if it were refundable, families might not benefit from the credit until they filed their tax returns and, thus, might be unable to meet weekly child care costs. 42/

Finally, restricting the credit to families with incomes below a set limit would reduce revenue losses and help finance increased assistance for those families with low incomes. Because about 20 percent of child tax credits--nearly $300 million--went to taxpayers with annual incomes above $40,000 in 1982, significant savings could be obtained. Denying the credit for higher-income families, however would be a refusal to recognize a legitimate work-related expense for some, while allowing it for others.

---

41. This estimate derives from CBO simulations of 1984 tax law, which assume that families either claim the standard deduction of $3,400 for married couples or $2,300 for single heads of household, or that they deduct through itemization 23 percent of their gross income if that is greater. Total child care costs of at least $4,800 for two children are also assumed.

42. A family could avoid this problem by reducing the amount of tax withheld from earnings, but many families might not know how to do this.

APPENDIX A

MEASURING POVERTY

Since the early 1960s, the official definition of poverty has been one developed by Mollie Orshansky for the Social Security Administration. 1/ That definition compares the total cash income of an individual's family with a poverty threshold based on a multiple of the cost of a nutritionally adequate diet for a family of that size and composition: if the family income is below the threshold, each member of the family is officially classified as poor.

The official poverty definition has been criticized on a variety of grounds, among them that income received in the form of goods and services--generally called in-kind income--is not counted, that the thresholds are set improperly, that taxes should be treated consistently in income measures and the thresholds, and that the basic concept of a poverty rate cannot measure the degree of poverty. These problems were clearly recognized by Orshansky and others when the poverty definition was established, but the need for a workable definition meant that compromises had to be made. Further, most of the issues that pose problems today were substantially less important 20 years ago. 2/

---

1. There are actually two official poverty definitions. The Orshansky measure is used by the Bureau of the Census to assess which people were poor during an earlier year. The Office of Management and Budget (OMB) measure is used to determine eligibility for federal antipoverty programs. The OMB measure--which is actually calculated each year by the Department of Health and Human Services--is derived by inflating the most recent Census poverty thresholds based on the prior year's change in the Consumer Price Index for Urban Consumers (CPI-U). The focus here is on the Census definition.

2. This discussion does not consider what may be the most significant problem in measuring poverty--the underreporting of income in the Current Population Survey (CPS). Comparisons of CPS data--the basis for poverty estimates--and income data from programs and the Internal Revenue Service indicate that a significant fraction of income does not show up in the CPS. To the extent that low-income families underreport their income, this would lead to overstated poverty rates. At the same time, underreporting has not changed by much over time, so changes in poverty statistics are likely to be more accurately measured than levels. In any case, no better data are available.

ISSUES IN ASSESSING POVERTY AND THE CURRENT MEASURE

What constitutes poverty is inherently a subjective judgment, depending in part on the views of the observer and in part on the use to which a poverty measure is to be put. Any assessment of poverty compares resources available to a family against a standard of need: if the resources are less than the standard, the family is labeled "poor." At issue are two basic questions: what resources should be considered to be available to meet need standards, and at what level should the standards be set?

It is generally agreed that available resources should include all cash income, but questions are raised about non-cash income and assets. Because in-kind income--that is, income received as goods or services--cannot be used to satisfy general needs, it is unclear how such income should be counted; in essence, the issue is one of valuation. Whether assets should be counted beyond the income they produce is also debated, especially in the case of assets that do not generate cash income, such as owner-occupied homes. These issues are discussed in greater detail below.

Need standards are necessarily arbitrary and are defined relative to societal norms. What one person views as inadequate can be seen by another as being fully satisfactory, and what would be considered poverty in a wealthy country like the United States could be an extremely high living standard in a developing country where average incomes are low. At the same time, the choice of poverty thresholds should be determined, at least in part, by the purpose behind the poverty measure. If the measure is to be used primarily as an indicator of what is happening to the number of poor people over time, assessed in terms of an absolute standard of what constitutes poverty, thresholds should be fixed in real terms even though the levels are arbitrary. If, instead, the measure is to be used as an eligibility criterion for assistance programs, thresholds should indicate levels of well-being below which it is agreed that the government should provide aid. Finally, if the measure is meant to assess the well-being of those who are worst off in relation to the rest of the population, thresholds should be set and varied over time to equal some fraction of average living standards.

Measuring poverty is complicated, partly because it is difficult to define need standards and thus required resources, and partly because required and available resources may not be measured in comparable units. If need standards could be defined as minimum amounts of each consumption good or service, available resources would be adequate if they made it possible to obtain the needed amount of each item--that is, if cash resources were sufficient to purchase necessary items not available in kind. Setting standards for how much of each good a family must have to escape poverty, however, is difficult--if not impossible. Resource requirements have therefore been defined in aggregate dollar terms--the poverty thresholds. (See the following section for further discussion of this issue.)

The problem would end here if available resources were also only in dollars: a family with cash income at or above the thresholds would be able to meet the need standards and thus not be poor. But resources are not all monetary; families can get food stamps, subsidized housing, subsidized health insurance, and other goods and services in kind rather than in cash. Because need standards are defined in monetary terms and not on the basis of how much of each consumption item is required to avoid poverty, it is difficult to determine what amounts of in-kind resources would satisfy those needs.

Measuring poverty thus requires two things:

- A definition of what constitutes the standard and the resources required to satisfy those needs, and
- Assessment of whether individual families have the necessary resources.

Defining Need Standards and Resource Requirements

There is no objective method of defining need standards and resource requirements. In principle, standards should represent the minimum amount of each category of goods and services that is necessary for a socially acceptable, minimum standard of living, while resource requirements should be what is necessary to attain those standards. Because there are official nutritional standards, a minimum food bundle that satisfies those standards can be used to define the basic need for food. Such standards do not exist, however, for housing, medical care, clothing, and other requirements, and there is wide disagreement about what standards should be. Moreover, standards set, even for food, are necessarily subjective, reflecting the prevailing living conditions for the nation as a whole and the perceptions of the people defining the standards.

Orshansky skirted the question of quantifying need standards for specific items by establishing poverty thresholds that represent resource requirements. These thresholds were defined as the cost of a bundle of food, multiplied by the ratio of income to food expenditures. Minimum food costs were taken from the economy food plan, the least expensive of four diets determined by the Department of Agriculture (USDA) to meet basic nutritional needs. 3/ The income needed to be nonpoor was then set equal to three times the cost of the economy food plan, based on a 1955 survey indicating that families of three or more persons spent one-third of their after-tax income on food. Because food requirements vary with household composition, separate poverty thresholds were calculated for different family types based on size, number of children, and the age and sex of the family's head. 4/ Over time, these thresholds have been adjusted for inflation, initially to reflect changes in food prices and more recently to account for changes in the general price level (see further discussion below).

While the Orshansky formulation conveniently sidesteps the issue of defining minimum requirements for every consumption item, its very simplicity means that it cannot accurately measure basic needs for all--or perhaps any--households. For example, because women require less food than men, the original thresholds for female-headed households were set below those for male-headed households, even though needing less food has no effect on requirements for housing, clothes, and other necessities. 5/ Unless there is a fixed relationship between food requirements and other needs, defining poverty thresholds as a fixed multiple of poverty-level food costs for different groups can only approximate true resource requirements.

Similarly, objections can be raised against the simplifying assumption that, because in 1955 families with three or more members spent one-third

---

3. Even here, however, there is disagreement. The Department of Agriculture has defined both economy and thrifty food plans, the first of which was designed as "emergency and temporary" and the second of which is used as the basis for food stamp allotments. Neither represents the minimum-cost food bundle for meeting nutritional standards, since both allow for a varied diet that includes those foods normally consumed by Americans. Even so, the USDA acknowledges that a person would have to be quite knowledgeable to maintain a nutritional diet with either food plan.

4. To account for the higher fixed costs of smaller families, multipliers greater than three were used for couples and persons living alone; these multipliers were 3.88 and 5.92, respectively. All other differences in thresholds stem from differences in assumed food needs.

5. The threshold distinction based on sex of household head was dropped in 1981; currently 48 thresholds are defined for nine sizes of families with nonelderly heads and two sizes of families with elderly heads, with further differentiation based on number of children.

of their income on food, need standards can be defined as three times the cost of food. Families spend a smaller share of their budget on food as their incomes rise. Consequently, poor families spend a larger than average fraction of their incomes on food, and the fraction of income spent on food by all families therefore understates that fraction. Thus, the poverty thresholds derived from the average budget share going for food overstate needs based on normal expenditures of low-income households. In addition, changing relative prices between food and non-food items mean that a fixed relationship between food and non-food expenditures is unlikely to hold over time. If food prices rise less rapidly than other prices, the budget share needed for non-food items would increase and the income requirement would be more than three times the cost of a minimum food bundle.

Updating the thresholds to account for price changes also presents problems, because current methods may not accurately reflect variations in resources required to avoid poverty. Before 1969, the thresholds were adjusted annually for inflation based on changes in the Consumer Price Index for food. That procedure implicitly assumed that the income-to-food-expenditure ratio was unchanging and that resource requirements therefore would grow at the same rate as food prices. 6/ Since 1969, the basis for inflation adjustment has been the Consumer Price Index (CPI) for all goods and services. This revised methodology does not assume a constant ratio of income to food expenditures, but it does assume that changes in relative prices do not affect the need standards for families.

The major failing of this inflation-adjustment procedure comes from the possibility that prices of goods purchased by poor families might change at a different rate from prices of goods represented in the CPI. Low-income families spend relatively more of their income on food and energy and relatively less on their own homes than does the average family. When prices of food and energy rose faster than the CPI during the early 1970s, the official poverty thresholds failed to reflect these adverse relative price movements. At the end of that decade, rapidly increasing homeownership costs meant that the CPI grew faster than prices generally; during that period, poverty thresholds probably increased in real terms. If poverty thresholds are intended to represent the cost of obtaining a minimum bundle of consumption needs, updating them based on the CPI probably misstates actual costs.

---

6. Alternatively, the procedure could be viewed as assuming that all prices were changing at the same rate, so using the CPI for food to inflate the thresholds was equivalent to using the CPI for all items. This last assumption was clearly false, however.

A further objection to the current methodology involves the question of what should be included in the measures of income and food expenditure used to calculate the multiplier. The original analysis counted only cash income after taxes on the income side and food purchases on the food side. Because farm families grow some of their own food, adjustments were made to poverty thresholds for the farm population to reflect their reduced need for cash to buy food. 7/ In the early 1960s, this approach made sense, since most income was in cash, and, other than for farm families, relatively little food was received as transfers or in-kind payments. This situation has changed, however, with the growth during the last two decades of government transfer programs (such as food stamps, Medicaid, and housing assistance) that provide non-cash aid and the rapid increase in the proportion of employee compensation paid in the form of fringe benefits (such as pensions, health and life insurance, and employer-provided meals). Ignoring the values of these in-kind benefits in either the numerator or the denominator of the multiplier calculation will yield a less accurate measure of the income-to-food-expenditure ratio.

At the same time, defenders of the current multiplier argue that the poverty measure should be absolute and unchanging over time, except to reflect general inflation. If the original multiplier calculations accurately measured the income-to-food-expenditure relationship at the time, there is no need to determine a new multiplier taking into account the growth in in-kind benefits, even if such benefits were counted as income. The need standards, according to this argument, should continue to be based on the original multiplier analysis to avoid raising (or lowering) poverty standards over time, and hence to maintain continuity in poverty statistics.

A final objection is that poverty thresholds make no allowance for geographic variation in the cost of living. What few data are available indicate that maintaining a given standard of living can be markedly more expensive in some locations than in others; yet a single set of poverty thresholds, invariant with respect to location, is used to determine whether people are poor. Families officially classified as poor but living in low-cost areas could well be better off than similar families with incomes above the poverty line who live where costs are high.

---

7. This adjustment was somewhat arbitrary, however. Thresholds for farm families were set at 70 percent of non-farm thresholds, even though there was little evidence to support such a value. The percentage was raised to 85 percent in 1969 and to 100 percent in 1981 on the assumption that only a small fraction of farm families rely on home production for a significant portion of their food.

Despite these criticisms, the lack of an objective means of defining a family's basic needs for each individual consumption item leaves no better way of setting absolute poverty thresholds. 8/ While recognizing the shortcomings of the methodology, this study follows the basic Orshansky multiplier approach in most of the alternative definitions it examines. At the same time, changes are considered that could reduce the impact of some of those shortcomings.

Assessing the Adequacy of Resources

Currently, a family's poverty status is obtained by comparing its total pretax, cash income with the relevant poverty threshold. If its annual income falls short of the threshold, the family and all of its members are classified as poor. This section discusses four problems with this approach: no account is taken of the family's non-cash income; wealth and period-to-period fluctuations in income are ignored; the income considered is gross of taxes, while the thresholds are based on after-tax income; and no distinction is made between families that are barely poor and those whose income is far below the threshold.

In-kind Income. Perhaps the most frequently mentioned criticism of the official poverty measure is that it ignores non-cash income. A family receiving $200 worth of food stamps each month, living in public housing, and getting subsidized health insurance is considered to be no better off than an otherwise identical family getting none of those benefits. This almost certainly misstates the relative well-being of the two families. Since accepting such income is voluntary, the recipient family is almost certain to be helped and cannot be made worse off. At the same time, any amount of a given good in excess of the minimum requirement has no value in terms of meeting other needs. A family is still poor if it cannot afford all basic needs, regardless of how much food or housing or any other single good it has. Consequently, receipt of non-cash income reduces poverty with respect to other goods only to the extent that it frees cash income to buy those other goods.

---

8. The entire issue of defining poverty in terms of need standards could be avoided by setting thresholds relative to median family income. This approach argues that poverty is not absolute, but rather is a function of the standard of living of the average family. The Orshansky multiplier approach itself is not entirely absolute in that the income-to-food-expenditure ratio is based on a national average, thus taking into account the normal standard of living. Similarly, the economy food plan is not a least-cost diet, but rather a low-cost diet that allows for a varied food menu containing the kinds of food consumed by average Americans.

By this argument, a particular form of non-cash income should be considered in assessing poverty status only up to a value representing that part of the poverty threshold that would be expected to be allocated to that good. For example, if the poverty threshold for a family were $800 per month and the family was expected to spend 30 percent on housing, the value of housing assistance provided to the family each month should not exceed $240 (30 percent of $800) less the family's own cash expenditures on housing when determining whether or not the family is poor. Any additional non-cash income given in the form of housing does not help the family meet its need for $560 per month (70 percent of $800) for non-housing expenditures. 9/ (Since the excess over $240 may substantially improve the family's well-being, however, one might argue that it ought not to be completely excluded from measurement.)

Wealth and the Accounting Period. The official poverty definition ignores wealth except to the extent that a family's assets generate cash income; only income received during the calendar year is compared with the poverty threshold. 10/ But a family's well-being depends less on income than on consumption and the ability to satisfy basic needs. A family with significant accumulated savings can continue to consume, even if its income disappears entirely for a year or two, and such a family would not normally be considered poor. At the same time, savings cannot replace income forever, and almost all families with no income at all will eventually become poor in consumption terms.

What is at issue here is the accounting period over which poverty is assessed; the length of that period can greatly affect the measured poverty rate. The official poverty measure uses a one-year accounting period, long enough to smooth out most short-term fluctuations in incomes such as those caused by periods of illness. Even so, some incomes are more volatile, perhaps because employment is less regular or because payment comes only at the completion of major tasks, and even an annual accounting period fails to capture the true nature of a family's financial situation. Savings may enable such families to maintain an even consumption pattern; in such cases,

---

9. As noted above, the current poverty thresholds do not indicate basic needs for individual consumption items. That the thresholds represent income needed to satisfy specific needs is implicit, however.

10. One form of wealth not considered here is employer contributions to pension plans. Because such wealth cannot be used for current consumption, one might argue that it should be ignored in assessing poverty status. Others might argue that because pensions reduce the need for other savings, they should be counted.

the official poverty measure is misleading. This argues for some means of reflecting wealth in assessing poverty.

Two issues mitigate this argument, however. First, good measures of wealth do not exist, and individuals in general do not have a good sense of what their wealth is. While surveys could gather data on wealth just as they do on income, the results would likely be inaccurate because people tend not to know either the extent of their assets or their value. Second, even if wealth could be measured accurately, it is unclear how it should be incorporated into a measure of poverty. Should a family be expected to spend all its savings in a given year? Over three years? If so, wealth (or one-third of wealth) should be counted as income. Or should wealth be expected to provide a particular percentage return? Then that percentage of a family's wealth should be considered to be the same as income. That might still be an inaccurate measure of the family's ability to satisfy its immediate consumption needs, however, because some forms of wealth are difficult to transform into cash quickly.

One particular form of wealth--housing--presents special problems. For most homeowners, their homes are probably their largest assets and form the bulk of their wealth. More important, their homes provide them with places to live, for what might be a lower annual cash cost than for similar, rented housing. The family's investment in their home yields a return, not in money income like most financial assets, but rather as housing which is neither valued in dollars nor counted as income in assessing poverty status. By ignoring this in-kind income (often called imputed rent by economists), the official poverty measure understates the resources available to homeowner families to meet their consumption needs. 11/ However, omitting the value of services provided by a family's own home--and, to a lesser extent, the value of services provided by other durable goods such as automobiles--yields an inaccurate assessment of its poverty status.

Taxes. There are two consistent methods of dealing with taxes in measuring poverty. On the one hand, pre-tax income could be compared with poverty thresholds defined to include tax payments as a resource need; on the other hand, income net of taxes could be compared with poverty thresholds defined as resources required to cover non-tax needs. Official poverty statistics follow neither course but rather compare pre-tax income with poverty thresholds based on after-tax income. Twenty years ago when the poverty measure was devised, this treatment of income made little difference since poor families paid little or nothing in taxes. Rising payroll taxes and bracket creep in the federal income tax have increased the tax

---

11. In part, imputed rent is ignored because it is difficult to obtain accurate data through surveys (the source of other information used to calculate poverty statistics).

liabilities of low-income households, however; in 1984, families with four members and with earnings at the poverty level owed more than 10 percent of their income in federal taxes--up from 4 percent in 1978. This is a significant reduction in resources available to such families to meet their consumption needs.

In addition, the current treatment of taxes in measuring poverty fails to distinguish the different resource needs of families with and without tax liabilities. Two families with the same pre-tax incomes will not be equally well off if one has income from earnings that are subject to payroll and income taxes, while the other has income from untaxed transfer payments. Consistency requires either that pre-tax incomes be compared with resource needs for consumption and taxes or that after-tax incomes be assessed against consumption needs alone.

Pre-tax incomes are more easily determined than after-tax incomes, since there is wide variation in taxes paid by families with similar before-tax incomes. At the same time, this variation means that poverty thresholds incorporating average tax liabilities would not accurately represent the resource needs of different families. Because there is much less variation in incomes required for consumption goods and services, thresholds reflecting after-tax needs might provide greater accuracy.

Degree of Poverty. Poverty statistics classify families and individuals as either poor or not poor; this simplification severely limits the usefulness of the poverty rate as an indicator of the condition of low-income families. The degree of poverty matters as well, and the inability of the poverty rate to measure degree has several implications. First, the measure separates similar families, and groups together quite different families. A family with income just below the poverty threshold is much more like a family with income just above the threshold than it is like a family with no income at all, yet it appears to be no different from the latter family in the poverty rate statistics. Second, poverty rates do not tell how poor families are. A situation in which every family in the poorest 15 percent of the population has an income $200 below the poverty threshold appears identical to one in which each of those families has an income of only $200, yet clearly the latter presents much greater cause for concern. Third, the poverty rate cannot give a complete picture of the effectiveness of antipoverty programs. In terms of its effect on the poverty rate, a program that provided a small amount of additional income to many families just below the poverty line, thus moving them out of poverty, would seem more effective than a program that gave significant resources to the very poor but did not pull any of its beneficiaries above the official poverty line.

The poverty gap--the aggregate amount of cash income by which all poor families fall below the poverty level--is a measure that serves to mitigate these problems somewhat but not completely. It distinguishes sharply between the polar cases cited above: if all poor families are just below the poverty threshold, the poverty gap is relatively small; if all of the poor have virtually no incomes, the gap is large. Further, the poverty gap provides a good measure of the effectiveness of antipoverty programs. The extent to which any program raises measured incomes of the poor will be directly reflected in the poverty gap; benefits going to those at or above the poverty line have no effect on it, however.

At the same time, the poverty gap fails to distinguish which of the poor are helped by improvements in the national economy or by assistance programs. Although providing $1,000 additional annual income to a family who is $1,000 below the poverty threshold has the same effect on the poverty gap as providing the same $1,000 to a family with no income, the latter approach is almost certain to be better in terms of reducing the effects of poverty. Differential impacts on the poor can be distinguished by examining the distribution of the poor and near-poor around the poverty thresholds, considering, for example, the number of families with incomes between 0 and 50 percent of the poverty thresholds, between 50 percent and 75 percent, between 75 percent and 100 percent, between 100 percent and 125 percent, and so on. Changes in this distribution could then show the effects on the poor of antipoverty programs, a drop in unemployment, or other events. It is difficult, however, to summarize the meaning of a given distribution or to compare two different distributions. In any event, there is probably no single measure that tells policymakers all they should know about poverty. Using several measures is probably the best approach.

ALTERNATIVE MEASURES OF POVERTY

This section examines alternative measures of poverty, focusing on various ways of changing the definition of income to include non-cash resources and to exclude taxes paid, and of adjusting the poverty thresholds with which income is compared.

Counting In-kind Income and Excluding Taxes from Income

A significant part of income is received in a wide range of in-kind forms. Employers often pay part of the costs of health and life insurance for workers and their families, and sometimes provide meals and housing. The government offers aid to low-income families and individuals through food stamps, school nutrition programs, Medicaid, and housing subsidies for both renters and homeowners. These benefits now comprise nearly two-thirds of all means-tested assistance given to poor households. 12/ Medicare provides medical care for the elderly and disabled without regard to recipients' incomes.

Taxes have also grown in importance for low-income families. For a family of four at the poverty level, combined federal payroll and personal income tax liability has grown from 4 percent of income in 1978 to over 10 percent in 1984. More than one-third of all families below the poverty level pay some taxes; for those families, the two taxes average more than 6 percent of income.

Because these in-kind benefits and taxes have a significant effect on the well-being of low-income families, they should be incorporated in assessments of poverty status. Ignoring these factors, which have a large and growing impact on the resources of poor families, yields inaccurate measures of the ability of the poor to satisfy basic needs.

Three questions arise with regard to counting non-cash income and excluding taxes:

- Which kinds of non-cash income can and should be included?
- How should non-cash income be valued?
- Which taxes should be omitted in calculating incomes?

Which kinds of non-cash income can and should be included? This question has both practical and theoretical parts. On the one hand, if a more inclusive income measure is to be applied, one must be able to determine how much of each kind of non-cash income a family receives. In principle, all benefits that improve a family's ability to obtain goods and services should be included. From a practical viewpoint, however, it is often difficult to determine exactly what in-kind income a family receives. On the other hand, even if one could observe receipt of every form of non-cash income, not all of those forms improve a family's ability to satisfy current

---

12. Department of Commerce, Bureau of the Census, *Estimates of Poverty Including the Value of Noncash Benefits: 1983*, Technical Paper 52, Table A, p. viii.

needs; for example, employer-provided pension benefits may generate resources that the family can use in retirement but not money with which to buy food today.

What non-cash benefits could be counted as income in practice is determined by the data available. While new survey information is forthcoming, the best current source (the Current Population Survey, or CPS) includes data only on receipt of food stamps, school lunches, housing assistance, and medical care provided through Medicaid, Medicare, and private insurance. 13/ The Bureau of the Census has estimated alternative ways of valuing each of these four in-kind transfers; the assessment offered below of in-kind income includes only these four items. 14/

How should non-cash income be valued? To allow combining cash and non-cash incomes, each non-cash benefit must be assigned a cash value, but there is no consensus on how this should be done. The Bureau of the Census has devised three different valuation approaches, each with advantages and drawbacks. 15/

Market value is an estimate of what the good or service would cost if bought in the private market. This is generally easiest to estimate, since there is often a comparable item available for sale for which a price or cost can be found. 16/ However, the market value may greatly exceed the value to recipients, if recipients would not have chosen to buy as much of the good or service had they been given its market value in cash, or if in-kind benefits do not free up resources equal to their market value for use in satisfying other needs. In fact, valuing in-kind benefits at their market value can lead to absurd conclusions: an example often cited is that by

---

13. The Survey of Income and Program Participation (SIPP) will provide a wealth of information on 40 different sources of income and 13 classes of assets, but data from SIPP are now available only for the last two quarters of 1983. When more SIPP data are released, it will be possible to determine the receipt of a much wider range of non-cash incomes than with current data bases.

14. One additional issue involves the inclusion of medical care: should long-term institutional medical care be included at all? Because poverty rates are calculated only for the noninstitutionalized population, only the value of noninstitutional care is included.

15. See Department of Commerce, Bureau of the Census, *Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty*, Technical Paper 50, March 1982 (see especially Chapters 4 and 5).

16. For some items, this is not the case. Medicaid, for example, has no comparable counterpart in the private market. The market value for Medicaid is calculated as an insurance value, based on total program costs.

using the market-value approach and valuing Medicaid benefits at average cost (that is, the market value is defined to be the average cost of health care services provided), there would be no elderly poor living alone in New York State because the insurance value of Medicare and Medicaid provided to them exceeds the poverty threshold for single people.

The recipient/cash equivalent value (R/CE) addresses this problem by trying to estimate how much cash individuals would have to be given in place of the non-cash benefit to make them feel equally well off. This value cannot be greater than the market value of the benefit; cash equal to the market value would enable recipients to purchase the in-kind transfer and be at least as well off as with the transfer. Usually, the R/CE value is less than the market value; in most cases, recipients would prefer to be given a combination of goods rather than a large amount of only one good; they would thus exchange the in-kind transfer for less than its market value in cash, which could then be used to buy a variety of goods. 17/

For some analysts, the R/CE value is quite appealing since it bases the valuation on the individual's own assessment of the benefit's worth. On the other hand, others would argue that society should judge what in-kind transfers to the poor should be and that self-perceptions of the poor should be ignored. Further, while the R/CE value is conceptually clear, its practical application requires strong assumptions about people's behavior or preferences. 18/

---

17. If the recipient would have purchased at least as much of the item as was received, the transfer frees up cash equal to its market value, so the recipient/cash equivalent value must equal the market value. If the recipient would have purchased less, the recipient/cash equivalent value will generally be lower than market value because consumers usually do not choose to spend all additional income on any one good; they would be willing to give up some of the market value of the in-kind benefit in order to achieve more variety in their consumption.

18. In particular, the Bureau of the Census approach assumes that the value that recipients place on in-kind benefits is equal either to the average expenditure on the item by similar families with similar incomes who do not receive in-kind transfers or to the market value of the benefit, whichever is less. For example, if a family is given housing with a market value of $5,000, and if similar families not receiving housing assistance spend an average of $4,000 on housing, the R/CE value would be $4,000. If the market value of the assistance were only $3,500, the R/CE value would also be $3,500.

    An alternative approach uses utility functions to estimate the additional income a family would need to be as well off as with the in-kind benefits. This approach suffers because utility functions are unobservable, and strong assumptions therefore have to be made to obtain estimates. See Department of Commerce, Bureau of the Census, *Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty*, Technical Paper 50, March 1982, pp. 28-31, 38-44, 58-69, and 127-134.

The budget-share value assumes that the value of an in-kind benefit cannot exceed the amount that families with cash incomes near the poverty level would spend on that specific item (the "poverty share"). The value of a non-cash benefit is then taken to be the lesser of the market value (as defined above) and this poverty share. This approach addresses the fact that in-kind transfers do not necessarily free up resources for use in satisfying other needs; only to the extent that the transfers replace previously purchased goods or services do recipients have more money to spend on consumption goods.

The budget-share value method has potentially serious shortcomings, however. First, it assumes that recipients of in-kind income value that income as much as people with cash-only incomes near the poverty level. Second, it implicitly assumes that the poverty level is correctly defined. If in-kind income is counted in assessing poverty status, different thresholds may be appropriate. (This issue is discussed in greater detail below.)

The budget-share value method could be used to partition poverty thresholds into resource requirements for individual classes of goods. If poverty shares--that is, normal expenditures by families near the poverty level--were used to define resource requirements for specific goods and services, the budget-share value would constrain in-kind transfers to meet only the poverty-level requirement for the good or service in question. 19/

The dollar valuations of in-kind benefits developed by the Bureau of the Census vary significantly across the three approaches. In general, the market value is highest, while the recipient/cash equivalent value is lowest. Because measuring in-kind transfers at market value often overstates the availability of resources for purchasing goods and services--and thus the ability to meet basic needs--the analysis presented here uses only the budget share and the recipient/cash equivalent values. Specific estimates are those made by the Bureau of the Census.

Which taxes should be omitted in calculating incomes? Because poverty thresholds are based on the relationship between after-tax income and food expenditures, it would be consistent to exclude taxes from the income used

---

19. The circularity of this approach may lead to significant under- or overstatement of needs. If the poverty thresholds in fact represent the cost of meeting basic needs, and if families at the thresholds in fact purchase those basic needs, their budget shares represent poverty thresholds for individual items. On the other hand, if poverty thresholds are not what is needed to be nonpoor, or families at the poverty line buy too little or too much of some goods, the budget shares would not accurately denote resources needed to meet basic needs for specific items.

to assess poverty status. In essence, the thresholds represent the minimum disposable income required to be nonpoor. Both payroll and income taxes must be subtracted from pre-tax income to determine disposable income that can then be compared with the thresholds. 20/ On the other hand, because thresholds are based on consumption needs including sales taxes, the latter taxes should not be removed, as they represent part of the cost of goods and services. Similarly, because they are part of shelter costs and are thus part of normal expenditures, property taxes should not be subtracted from gross income. In the following analysis, income is evaluated net of payroll and state and federal income taxes, but inclusive of other taxes. 21/

Establishing Income Thresholds for Assessing Poverty Status

The thresholds currently used to assess poverty status have been set by multiplying the cost of a nutritionally adequate food bundle by the ratio of after-tax income to food expenditures for families with three or more members. These thresholds are updated over time in line with changes in the CPI for all items. Neither the income nor the food expenditure calculations include in-kind benefits, and it is therefore argued that the thresholds are inappropriate benchmarks to use if non-cash income is counted as a resource. This line of reasoning asserts that if income includes in-kind items, the income-to-food-expenditure ratio must be recalculated with in-kind benefits included in both halves of the ratio. This recalculation would require that the dollar value of in-kind food (such as food stamps, school lunches and other food programs, employer-provided meals, and food grown for personal consumption) be added to cash expenditures for food and that the dollar value of all non-cash income (including employer-provided health and life insurance, housing assistance, Medicare and Medicaid, and food items) be added to after-tax cash income. The revised ratio of these two values would then be multiplied by the cost of an inexpensive food plan to obtain a threshold against which total cash and non-cash income could be compared.

---

20. One can argue that payroll taxes finance retirement benefits and therefore may allow families to reduce savings and increase current consumption. For families in poverty, however, it is unlikely that saving for retirement would occur in the absence of payroll taxes.

21. It would be equally correct to compare pre-tax needs and pre-tax income, but--as noted above--wide variations in tax liability make estimating pre-tax needs difficult.

In response to this argument, others contend that there is no need to revise the poverty thresholds to account for non-cash income, because neither income nor consumption included much in kind at the time of the original multiplier calculation, which was based on a 1955 survey. If total food consumption required one-third of total income before in-kind benefits were significant--then increases in non-cash income and transfers should not affect the income-to-food-expenditure ratio, but rather should only require that the non-cash income be included in the poverty assessment. A hypothetical example clarifies this line of reasoning. Assume the multiplier based on cash income (which was then essentially the total) and food expenditures were exactly three, and that the cost of a minimal food plan was $200 per month; the poverty threshold is thus $600 ($200 x 3). A family with $600 or more in cash income and no non-cash benefits would thus be nonpoor. Now suppose that the family was given $100 in food benefits and $100 in housing assistance, and that its housing costs were at least $100. The family would now need only $400 cash income to meet its needs as defined by the poverty level; the non-cash food benefits satisfy half of its food needs and the housing assistance provides some or all of its shelter, leaving only $400 of other needs (the balance of food and housing requirements and all others). On the other hand, if non-cash income was significant in the earlier period, adjustments in the multiplier would be required.

Comparing total incomes--cash plus in-kind--with current poverty thresholds would ignore changes in consumption patterns over time. In that sense, the poverty measure would be constant in absolute terms. However, relative prices have changed over time, and families--both poor and nonpoor--have reacted by adjusting their consumption patterns, buying more of relatively cheaper goods and less of relatively expensive ones. To the extent that this has occurred, current poverty thresholds do not have the same meaning as when they were originally defined. To reflect changing relative prices and changing income patterns, the thresholds would require revision.

If the multiplier is to be adjusted to account for the inclusion of in-kind income, an additional question is raised: what group should be used as the basis for estimating the income-to-food-expenditure relationship? Orshansky took data for all income groups in the population--partly because that was what was available. But critics complain that this approach biases the multiplier--and, thus, the poverty thresholds--upward because higher-income families spend a smaller fraction of their income on food. If the intent is to characterize the income needs of families at the poverty level, it may be more logical to use data for the low-income population. At the same time, using expenditure information only for the poorest families probably would result in bias in the other direction: those below the poverty level spend a very high proportion of their income on food by necessity, and a multiplier based on the spending patterns of these families would be too low. An intermediate choice would be a group containing neither the poorest nor the richest families.

Another issue regarding thresholds is the basis on which they should be adjusted for inflation. Currently, thresholds are indexed by the CPI for all items. This is appropriate to the extent that the way in which prices are combined in calculating the CPI represents expenditure patterns of families around the poverty level. If this is not the case and if prices for some commodities are changing faster than prices for others, indexation based on the CPI will yield less accurate threshold adjustments than a price index based on actual purchases by poor families. Such a CPI for the poor does not now exist. It could be established, however, based either on the actual consumption patterns of poor families or on a consumption bundle representing the poverty level. While the latter would be conceptually consistent with inflating poverty thresholds, the former would be calculated without defining specific components of poverty-level consumption.

A final issue is whether poverty should be measured in absolute or relative terms. The official poverty measure does not assess whether families have enough income simply to survive. Instead, it takes some account of accepted standards of what constitutes a reasonable quality of life in the United States. Poverty thresholds are thus not strictly absolute, but are at least somewhat relative. Some critics argue that this should be made explicit by setting the thresholds equal to a fixed percentage of median family income. If this were done, what is defined as the poverty level would keep pace with average living standards in the country. In practice, the relationship between current poverty thresholds and median income has followed a downward trend, falling during periods of real growth and increasing during periods of stagflation. The poverty level for a family of four declined from 49 percent of the median income of four-person families in 1959 to 33 percent in 1973 and then rose to 35 percent in 1983. Thus, while the official poverty thresholds might (with the qualifications mentioned above) indicate the income required to obtain a minimum acceptable standard of living, they do not allow for changing perceptions of minimum needs brought about by increasing national income. For the latter, a relative measure would be needed.

Critics maintain that a relative poverty measure is an indicator not of poverty but rather of income inequality, since it measures the fraction of the population with incomes below a fixed percentage of median incomes. If being poor is defined as having income below thresholds defined in relative terms, then poverty can be eradicated only by reducing inequality among incomes of the poor and near-poor. General economic growth that causes all incomes to rise by 10 percent or 50 percent or 100 percent would have no impact on measured poverty at all, even though it would be hard to argue that those people at the bottom of the economic ladder would not be much better off as a result of the growth. In essence, the two measures answer different questions. An absolute measure tells how many people are unable to attain a specific living standard, while a relative measure assesses how well the poor are doing in relation to national norms.

One example of a relative poverty measure is included in the estimates presented below. The poverty level for a family of four was set at 50 percent of the median family income. Thresholds for other family sizes and compositions were set to maintain the same ratio with current official thresholds as for a family of four. This approach yields thresholds about 19 percent above the official thresholds in 1982.

STATISTICS ON POVERTY OF CHILDREN

This section presents 12 different measures of the poverty of children--the official measure used by the Bureau of the Census and 11 alternative measures obtained by varying the definition of income and the poverty thresholds with which incomes are compared. The alternatives are offered as illustrations of how the measurement of poverty might be changed, not as proposed revisions of the current measure. Statistics based on the alternative measures indicate how poverty rates and gaps would vary if definitions were changed; they are not meant to be viewed as "better" measures.

The 12 measures are based on three definitions of income and four sets of poverty thresholds. One definition of income is cash only, the same as is used in the official measure. The other definitions calculate income as cash plus the value of in-kind receipts of food stamps, school lunches, housing assistance, and medical care, minus federal and state income and payroll taxes. One alternative uses the recipient cash equivalent value of in-kind benefits, while the other uses the budget-share approach.

The lowest of the four sets of thresholds is a reindexation of the original 1965 thresholds, based on changes in the cost of a poverty consumption bundle. 22/ The current thresholds are also used based on the argument given above that no changes in the thresholds are required and to provide a comparison with official poverty statistics. A third set of thresholds is based on a recalculation of the multiplier relating food expenditures to total cash and in-kind income for the entire population. 23/ Finally, relative thresholds based on median family incomes provide the highest poverty lines. Table A-1 presents the estimated values for these alternative sets of poverty thresholds for 1982. (Because the most recent Census Bureau estimates of tax liabilities and the value of in-kind income needed to calculate incomes for some poverty measures are for 1982, all poverty statistics reported here are for that year.)

Poverty Rates

Under any particular set of thresholds, poverty rates for children in all families using the different income measures vary only slightly--never by more than about 10 percent--while differences in poverty rates across alternative thresholds are roughly proportional to variations in the thresholds themselves. The 1982 poverty rate for children under age 18 varied from 19.4 percent to 27.7 percent across all 12 measures--compared with 21.9 percent under the official definition (see Table A-2). The bulk of the variation was the result of the 20 percent difference between the highest and lowest thresholds; the widest variation across income definitions is from 19.4 percent to 21.6 percent for reindexed thresholds, the lowest values. Whether income is measured in terms of cash only, or inclusive of in-kind benefits and exclusive of taxes, poverty rates for all children as a group are relatively constant.

---

22. This CPI for the poor is based on expenditure patterns for poor people and families obtained from the 1972-1973 Consumer Expenditure Survey (CEX). Using published components of the CPI and reweighting with expenditure shares of the poor, it was found that costs for the poor rose about 203 percent between 1965 and 1982. Applying that increase to the 1965 poverty threshold for a family of four ($3,223) yields a reindexed 1982 poverty threshold of $9,757, about 1 percent less than the actual 1982 threshold of $9,862 for four-person families. For a complete discussion of the methodology, see Roberton Williams, "Inflation and the Poor" (Unpublished paper, April 1982).

23. "New multiplier" thresholds were calculated using estimates of total cash plus in-kind income after taxes and food expenditures--with in-kind benefits measured using the recipient cash equivalent value. In 1978, these values for all families of three or more people were estimated to be $14,067 and $3,532, respectively. The multiplier is the ratio of those two figures, or 3.98. The poverty threshold for a family of four was calculated by multiplying that ratio times the annual cost of the Thrifty Food Plan in 1982--$2,794.20. Poverty thresholds for other family sizes were obtained by multiplying the four-person threshold times the ratio of official thresholds for the given family size and for a four-person family.

TABLE A-1. ALTERNATIVE POVERTY THRESHOLDS, 1982 (In dollars)

Family Size and Structure a/	Reindexed Threshold b/	Official Threshold	Revised Multiplier c/	Relative Threshold d/
One Person	4,849	4,901	5,528	5,823
Age 15 - 64	4,966	5,019	5,661	5,963
Age 65 and over	4,577	4,626	5,218	5,496
Two People	6,214	6,281	7,085	7,463
Under age 65	6,418	6,487	7,317	7,708
Age 65 and over	5,774	5,836	6,583	6,934
Three People	7,611	7,693	8,678	9,140
Four People	9,757	9,862	11,124	11,717
Five People	11,560	11,684	13,180	13,881
Six People	13,066	13,207	14,897	15,691
Seven People	14,876	15,036	16,961	17,864
Eight People	16,541	16,719	18,859	19,863
Nine People or More	19,488	19,698	22,219	23,403
Ratio to Official Threshold	**0.989**	**1.000**	**1.128**	**1.188**

SOURCE: Department of Commerce, Bureau of the Census, *Characteristics of the Population Below the Poverty Level: 1982*, Current Population Reports, Consumer Income Series P-60, No. 144, and the Congressional Budget Office.

a. For all measures, thresholds for different family sizes are based on ratios between official thresholds for four-person families and the family size in question; for example, the reindexed threshold for five-person families equals $9,757 x ($11,684/9,862). This assumes that the ratio of thresholds for any two family sizes is the same across the four alternatives.

b. The reindexed threshold is obtained by inflating the official 1965 threshold for a family of four by the change in the CPI for poor families.

c. Revised multiplier thresholds are obtained by estimating both income and food expenditures, inclusive of in-kind benefits, recalculating the income-to-food-expenditure ratio, and multiplying that ratio times the 1982 Thrifty Food Plan amount for a family of four.

d. The relative threshold for a family of four is set at 50 percent of the median income for all families.

TABLE A-2. POVERTY RATES OF CHILDREN USING ALTERNATIVE ILLUSTRATIVE DEFINITIONS OF INCOME AND POVERTY THRESHOLDS, BY FAMILY TYPE, 1982

Threshold a/ and Income Measure b/	Children in Family Type c/						
	All Families	Two-Parent	Single Parent	Single Mother	Single Father	No Parent	Teenage Mother
Official Thresholds							
Cash Only	21.9	12.3	51.1	54.0	21.9	44.9	47.4
Cash Equivalent	20.7	12.3	46.3	48.8	21.1	41.0	43.4
Budget Share	19.8	12.0	43.5	45.8	20.8	39.7	40.6
Reindexed Thresholds							
Cash Only	21.6	12.1	50.8	53.6	21.9	44.4	47.4
Cash Equivalent	20.3	12.0	45.5	47.9	20.8	40.6	43.0
Budget Share	19.4	11.7	42.5	44.7	20.3	39.2	39.5
New Multiplier Thresholds							
Cash Only	24.9	14.9	55.3	58.3	24.6	48.3	53.4
Cash Equivalent	25.6	16.3	53.7	56.7	24.5	48.1	54.9
Budget Share	25.2	16.2	52.6	55.5	24.2	47.4	53.0
Relative Thresholds							
Cash Only	26.4	16.3	57.2	60.3	25.9	50.2	57.0
Cash Equivalent	27.7	18.2	56.8	59.7	27.1	50.3	56.7
Budget Share	27.3	18.0	55.7	58.6	27.3	49.8	56.6

SOURCE: Congressional Budget Office tabulations of March 1983 Current Population Survey, including Bureau of the Census imputations of the value of the in-kind income and of taxes.

a. See Table A-1 for definitions of alternative thresholds and their 1982 values.

b. Cash only is pre-tax income from all sources. Cash equivalent is total cash income plus the recipient cash equivalent value of food stamps, school lunches, housing assistance, and medical care received in kind, less federal and state income and payroll taxes. Budget share is the same as cash equivalent except that in-kind benefits are measured at their budget-share value.

c. Children include all unmarried people under 18 years of age, except those under 15 years of age who live alone. This definition excludes about 110,000 married people under age 18 and about 200,000 people under age 15 who are living alone.

For individual family types, however, poverty rates vary much more across the alternative definitions. For children living in families headed by single women, the broader income definitions yield lower poverty rates--as much as one-sixth lower--regardless of what threshold is used. On the other hand, poverty rates for children in two-parent families decline only slightly or increase by as much as 10 percent. Variation in the effects of alternative definitions results from differences in the relative importance of in-kind income and taxes for different family types. Families headed by single women are likely to receive more in-kind assistance and to pay less in taxes than are married-couple families. As a result, broadening the income definition is likely to have a greater positive effect for families headed by single women than for married couples.

Variation across family types in the effects of changing the poverty definition means that the composition of the population of poor children changes as well, although the differences are not great. Of all poor children under the official definition in 1982, 51 percent lived with their single mothers, while only 42 percent lived with both parents. If poverty had instead been assessed by comparing the budget-share measure of income with the new multiplier thresholds, poor children in two-parent families would have outnumbered those in families headed by single women 48 percent to 45 percent. While these effects may be small--under either measure, each group comprises nearly half of all poor children--they may influence perceptions about which types of families most need assistance.

Poverty Gaps for Poor Families with Children

Using broader income measures would yield poverty gaps markedly lower than under the current poverty definition, regardless of which thresholds are used (see Table A-3). Because large amounts of in-kind transfers go to poor families with children, their inclusion as income would close as much as one-third of the official poverty gap for those families. Using budget-share values would have somewhat larger effects than using cash-equivalent values, since the former are greater on average. As noted above, poverty gaps provide a more complete assessment of the status of the poor, since they reflect not only the number of poor people but also their degree of poverty. 24/

---

24. By definition, higher thresholds result in much larger poverty gaps, but that adds little information about the degree of poverty. Most of the increase stems from the additional resources needed to reach the higher thresholds by families that are poor under both sets of thresholds; relatively little increase results from more families being labeled as poor.

TABLE A-3. POVERTY GAPS FOR ALL FAMILIES WITH CHILDREN, UNDER ALTERNATIVE ILLUSTRATIVE DEFINITIONS OF INCOME AND POVERTY THRESHOLDS, 1982 (All values in billions of dollars)

	Poverty Thresholds b/			
Income Measure a/	Reindexed	Official	New Multiplier	Relative
Cash Only	25.3	26.0	34.0	38.2
Cash Equivalent	17.9	18.5	26.5	30.9
Budget Share	16.9	17.5	25.3	29.6

SOURCE: Congressional Budget Office tabulations of March 1983 Current Population Survey, including Bureau of the Census imputations of the value of the in-kind income and of taxes.

NOTE: Children include all unmarried people under 18 years of age, except those under 15 years of age who live alone. This definition excludes about 110,000 married people under age 18 and about 200,000 people under age 15 who are living alone.

a. Cash only is pre-tax income from all sources. Cash equivalent is total cash income plus the recipient cash equivalent value of food stamps, school lunches, housing assistance, and medical care received in kind, less federal and state income and payroll taxes. Budget share is the same as cash equivalent except that in-kind benefits are measured at their budget-share value.

b. See Table A-1 for definitions of alternative thresholds and their 1982 values.

Distribution of Poor Children Around Poverty Thresholds

One can obtain a more complicated but also more complete picture of the well-being of children by examining the distribution of children around the poverty thresholds (see Table I-2). By the official poverty measure, nearly three-fourths of poor children (or 16 percent of all children) are in families that have incomes below 75 percent of poverty. An additional 6 percent of all children are not poor, but have incomes within 25 percent of poverty. The broader income definitions change this picture somewhat. If either cash-equivalent or budget-share measures of income are used, only about half of poor children are in families with incomes below 75 percent of the thresholds. The families of nearly one-tenth of all children have incomes within 25 percent above poverty. These numbers are little different if alternative thresholds are used.

These distributions indicate two things. First, many of the poor are well below the poverty level, regardless of how income is measured, and a significant fraction of those that are not poor are only just above the poverty line. Second, in-kind transfers and taxes have a marked leveling effect on incomes: the combination pulls both those people below and those above poverty toward the thresholds.